1988-1989 BUDGET

Budget Speech and Additional Information

Delivered before the National Assembly
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Minister of Finance,
on May 12, 1988.

Gouvernement du Québec
Ministère des Finances

ISBN 2-551-08217-X

Legal deposit, 2nd quarter 1988
Bibliothèque nationale du Québec

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Introduction

The budget I am presenting today constitutes an important step in the plan of action implemented by the government two and a half years ago with a view to rectifying Québec's public finances, fostering economic growth and job creation, and strengthening social and cultural policies.

When we came into power, our first concern was to take Québec's financial situation in hand. The progress we have made to this end has been encouraging indeed. We have reached the objectives we set, and it is going to be possible to go even further.

We are now in a position to devote greater effort to economic, social and cultural priorities and respond more adequately to the needs of our citizens.

Our government is determined to further social justice for everyone. I therefore take great pleasure in announcing, as part of a major Québec tax reform, important measures which substantially reduce taxes for all citizens, especially families.

It is hard to envisage social progress without an economic climate favourable to growth; a high level of investment is essential to the creation of permanent jobs and a reduction in unemployment. To ensure that Québec's economy profits to the maximum from the free trade agreement with the United States, we must foster sustained investment, especially in the field of research and development. I shall therefore announce today a number of measures for providing still more substantial support for economic growth and job creation.

In addition, it is important that the regions play their full part in Québec's economic growth. I am therefore proposing certain measures to maximize the benefits of such growth in the regions.

The five major objectives of this budget are in line with those that have guided our efforts since the beginning of our mandate: increased order in public finances, fairer and more competitive taxation, support for families, economic growth and job creation, and regional development.

I. The state of the economy and of public finances

In December 1985, it was a matter of the utmost urgency for our government to take steps to improve the economy and the state of public finances. Now, two and a half years later, we must gauge our progress, ascertain the objectives to be pursued, and resolutely pursue them.

(A) The economy

As regards the economy, I am pleased to note today that under-investment and under-employment of human resources in Québec are being alleviated at an even faster pace than anticipated.

Remarkable economic growth

The growth of the Québec economy, which had been 2.9 percent in 1986, was an exceptionally strong 4.8 percent in 1987, while the major industrialized countries recorded appreciably lower growth rates—2.9 percent in the United States, 2.2 percent in Europe, 3.5 percent in Japan and 3.9 percent in Canada as a whole. This performance is even more remarkable given the fact that, in 1987, growth in the gross domestic product was twice the average for the past 10 years.

In 1987, as in 1986, it was private sector investment, which increased by 18.3 percent, that contributed the most to sustained growth of our economy. Last year, total private and public investment represented 18.6 percent of the gross domestic product, the highest level since 1980. The fact that such a performance was achieved at this stage in the economic cycle clearly reflects the climate of confidence in the Québec business community and among Québec households.

A major proportion of private sector investment has been in residential construction. Whereas in 1986 there were 60 348 housing starts, the highest number since 1976, a record 74 179 units was reached in 1987. Private non-residential investment, which increased by 12.8 percent in 1987, was also most encouraging. It represented 8.2 percent of the gross domestic product last year, the highest percentage since 1975.

Creation of 100 000 full-time jobs

Quebecers' confidence is justified. Following the expansion of demand and output, a record 100 000 jobs were created in Québec in 1987, all full time. The jobless rate, which was 11.8 percent in 1985, fell to 10.3 percent in 1987. Since the beginning of 1988, it has been on average 9.2 percent. It is even more interesting to note that unemployment rate disparities in the various regions diminished and that the jobless rate among young people decreased more than in any other group between 1985 and 1987, by 3.1 percentage points.

(B) Public finances

The government's responsible attitude in managing revenue and expenditure, in conjunction with Québec's remarkable economic performance, have led to a marked improvement in our financial position.

The deficit

$ 469 200 000 reduction in deficit

On numerous occasions, I stressed the urgency of reducing the deficit. The government had once again to be given a minimum of financial flexibility, scale back the proportion of expenditure allocated to debt service and stop mortgaging our children's future to pay for current public services. The budget deficit was initially reduced to $ 2 819 200 000 in 1986-1987. I announced that the deficit would be $ 2 400 000 000 in 1987-1988. Preliminary figures indicate that it will reach $ 2 350 000 000, which is $ 469 200 000 less than in 1986-1987.

STATEMENT OF FINANCIAL TRANSACTIONS
SUMMARY
(In millions of dollars)

	1986-1987	1987-1988		
		Budget Speech 1987-04-30	Preliminary results	Change
1. **Budgetary transactions**				
Revenue	25 569.7	27 680.0	28 399.0	719.0
Expenditure	- 28 388.9	- 30 080.0	- 30 749.0	- 669.0
Deficit	- 2 819.2	- 2 400.0	- 2 350.0	50.0
2. **Non-budgetary transactions**				
Investments, loans and advances	- 379.7	- 285.0	- 674.0	- 389.0
Retirement plans account	1 354.8	1 453.0	2 205.0	752.0
Provision for financing the water purification program	9.8	12.0	12.0	—
Other accounts	83.7	- 230.0	- 569.0	- 339.0
Balance	1 068.6	950.0	974.0	24.0
3. **Nets financial requirements**	- 1 750.6	- 1 450.0	- 1 376.0	74.0
4. **Financing**				
Change in cash position	- 80.9	100.0	174.0	74.0
Change in long-term debt	1 831.5	1 350.0	1 202.0	- 148.0
Total	**1 750.6**	**1 450.0**	**1 376.0**	**- 74.0**

Note : A negative amount indicates a financial requirement and a positive amount, a source of financing. For the change in cash position, a negative amount indicates an increase and a positive amount, a decrease.

However, we cannot stop there. We must continue to reduce the growth of the debt and of the debt service; it is obvious why, considering that in 1986-1987 14 percent of our revenue had to be devoted to the debt service, compared to 5 percent in 1976-1977.

To reduce the deficit, we first had to stop borrowing to finance what have been called "the basics", i.e. the government's expenditures excluding capital expenditures and its contributions as an employer to public and parapublic employee retirement plans. This has been achieved.

But we must go a step further, borrowing only to finance the government's capital expenditures. When the deficit is higher than total capital expenditures, we are asking future generations to pay for public services from which they have not benefited. Shifting the tax burden to succeeding generations is certainly not the best way to ensure that our children have a promising future.

Taxation

On a number of occasions, I have stated my conviction that the economic and social future of Québec depends upon a fair, competitive tax system. Over the past two years, we have made remarkable progress in this regard by lightening the tax burden of Quebecers and by taking steps to broaden social justice, provide greater work incentives and encourage investment in Québec. This is a monumental task, considering that a major portion of our budgetary revenue, i.e. federal transfers, has stagnated for some years.

Federal transfers

Federal transfers level off at 1983-1984 level

Transfers from the federal government levelled off, for all practical purposes, at the 1983-1984 level, i.e. $ 6 000 000 000, with the result that the federal government's contribution to our budgetary revenue fell from 28.6 percent in 1983-1984 to 21.9 percent in 1988-1989.

This situation is mainly the result of the withdrawal of the revenue guarantee related to the new federal equalization formula adopted in 1982-1983, but also of the limits imposed by the federal government on the growth of its contribution to the financing of expenditures for health and post-secondary education, two sectors in which demands on the provinces are escalating. Federal cuts since 1982-1983 in Established Programs Financing led to a shortfall of $ 714 000 000 for the Québec government this year.

Budgetary expenditures

Furthermore, as I emphasized in *The Need for Immediate Action*, published in March 1986, the deficit had to be reduced through better control of expenditures.

Growth in expenditures controlled

In 1986-1987, given the extent of the budgetary problem, the growth of expenditures had to be reduced to 3.1 percent. Last year it was 5.3 percent, and should grow at only a slightly higher rate during the next fiscal year. Consequently, the government's budgetary expenditures, which represented 25.2 percent of the GDP in 1985-1986, will represent only 22.4 percent in 1988-1989, a level not seen since the late 1970s.

While it showed discipline in managing public finances, the government nevertheless devoted substantial additional amounts to the implementation of priority activities. Since 1986-1987, a total of $ 3 064 000 000 has been earmarked for these purposes, i.e. $ 571 000 000 in 1986-1987, $ 1 061 000 000 in 1987-1988 and $ 1 432 000 000 in 1988-1989. Of this amount, the health sector alone received $ 1 100 000 000.

Satisfy needs according to Quebecers' ability to pay

In regard to the future, the government intends to continue to manage public finances responsibly. If lasting improvement is to be made in this respect, it is essential for budgetary expenditures to grow at a slower rate than the economy. This is what we have achieved through the combined efforts of the Chairman of the Conseil du trésor, and the ministerial team, under the enlightened stewardship of the Prime Minister. And we intend to persevere in the coming years to meet the needs of Quebecers in keeping with their ability to pay.

The public sector

The improvement over the past few years in the financial position of government corporations is noteworthy. In several instances, it improved remarkably. In others, privatization made it possible to return to the private sector corporations in which government intervention was no longer necessary. Furthermore, these actions enabled Québec taxpayers to save substantial amounts.

Government corporations healthier

In 1984-1985, the losses of a number of government corporations totalled more than half a billion dollars. With a few exceptions, for which recovery plans are currently being implemented, most government corporations now make profits and are no longer a burden on Quebecers.

Improvement of the government's financial position, as well as that of government corporations, is already discernible in the whole of the public sector, which also includes the education, health and social services networks, and the local sector. Last year, for the first time since 1979, net borrowings of the public sector were lower than its investments. It is gratifying to note that, taken as a whole, the public sector has ceased to burden future generations with its commitments.

In short, it is clear that the results achieved in managing Québec's public finances constitute major progress compared to the situation prevailing when we assumed office. In the last section of the Budget Speech, I will discuss the steps that we intend to take in this regard. We will now deal with one of the major elements of this Budget—tax reform as regards individuals and measures to assist families.

II. Reform of personal income tax and assistance for families

(A) Principles

Québec did not wait for federal tax reform before reducing taxes and embarking upon its own tax reform. On December 18, 1985, shortly after we came into power, I tabled a Budgetary Policy Statement in which I announced reductions in personal income taxes. Taxation rates were reduced in income brackets in which they were no longer competitive, the 10 percent surtax on fuel was eliminated in outlying regions and the sales tax on individual life insurance premiums and on individual health and accident insurance premiums was abolished. From the outset, the government based its tax reform on greater fairness and social justice, and a more competitive taxation system.

In the 1987-1988 Budget, these objectives led us to focus on the family. Some $ 169 000 000 in tax reductions were granted to low and middle-income families over a full year. The APPORT program was established and additional funds were allocated to day care centres. Large families benefited from a more favourable availability allowance, and the government ceased to recover family allowances paid for the third child.

However, a new objective was added to those outlined above, thus engendering major changes in the taxation system. To foster economic growth and job creation, the government thoroughly reviewed and substantially increased assistance for research and development.

It also seemed important to simplify the Québec taxation system and to the greatest extent possible harmonize it with the federal taxation system, obviously bearing in mind the province's and Québec taxpayers' interests. Such was the case, for example, last December when the government brought virtually all measures designed to broaden its tax base into line with those adopted by Ottawa. However, we decided to preserve a number of investment instruments which are vital to Québec's economic development, such as advantages accorded the mining industry, research and development and the film industry. In these instances, we felt it preferable to adopt an original policy, one more in keeping with the interests of Québec and Quebecers.

We must now pursue the reform guided by the same objectives: fairness and social justice, competitive taxation, support for economic growth and job creation, and simplification of the taxation system.

In 1987, the United States government undertook a major reform of its taxation system. The federal and provincial governments in Canada also embarked upon tax reforms in 1988. Such changes have completely transformed the Québec fiscal landscape. In several instances, the objectives we were pursuing could not be reached, or would be reached to a lesser degree than anticipated, unless we also launched a sweeping reform.

(B) Choosing between tax credits and exemptions

An important component of the tax reform is the replacement of personal exemptions and a number of deductions by tax credits. This question has aroused far-reaching debate. Both approaches have advantages, which I will not examine at this time. The federal tax reform stresses tax credits rather than personal exemptions. We have followed a similar course to simplify the system, and because of the widespread belief that tax credits favour fairness.

Exemptions and deductions converted into tax credits

I am therefore announcing that, in general, personal exemptions will be converted into tax credits at a rate of 20 percent.

For example, under the old system, the basic exemption and the exemption for married persons for 1988 would have been $ 5 280 each; both exemptions would have resulted in an $ 820 tax reduction for individuals taxed at the lowest rate. Both exemptions will be replaced by tax credits of $ 1 056, a $ 236 gain with respect to both exemptions for the low-income earner mentioned earlier. Both new credits will exceed that accorded under the federal taxation system. Moreover, individuals living alone will benefit from an additional $ 180 credit not offered by Ottawa.

I will look more closely at new tax credits for dependent children when I discuss assistance for families. Various other exemptions have also be converted into tax credits; they are listed in the Appendix on Fiscal and Budgetary Measures, which is an integral part of the Budget Speech.

Under the federal reform, various expenses incurred to earn income, which used to be deductible, have been turned into tax credits, including unemployment insurance contributions, Québec Pension Plan contributions, and the deduction for tuition fees. In my view, it is preferable to treat all expenses incurred to earn income in the same manner. I am announcing, therefore, that Québec taxpayers will continue to be entitled to the same deductions as before.

Straightforward harmonization with the federal reform would eliminate the deduction for employment-related expenses, thus creating a serious problem of fairness. While the self-employed are still entitled to deduct professional expenses, the equivalent deduction would be withdrawn for wage earners. The automatic deduction for employment-related expenses is therefore being maintained; it is equivalent to 6 percent of employment income, to a maximum of $ 750.

(C) New taxation table

One tax objective that we have relentlessly pursued is to reduce all Quebecers' taxes. The higher tax reductions and credits I have just announced will help achieve this end, primarily for low-income families. However, the main way to achieve this goal is through lower tax rates.

Five tax brackets instead of 16

A new tax scale will be adopted. The 16 tax brackets used at present will be reduced to 5. To simplify matters, the new scale will incorporate the old 3 percent deduction on tax payable. On taxable income between $ 0 and $ 7 000, the new tax rate will be 16 percent; between $ 7 000 and $ 14 000, 19 percent; between $ 14 000 and $ 23 000, 21 percent; between $ 23 000 and $ 50 000, 23 percent. The maximum marginal rate applicable to income over $ 50 000 will be 24 percent.

These changes in deductions, exemptions and the tax table mean appreciable savings for taxpayers. The Appendix on Fiscal and Budgetary Measures outlines reductions for various categories of taxpayers and income.

For example, a single taxpayer earning the minimum wage, or $ 10 000, would have paid $ 415 in Québec income tax prior to the reform. After the reform, he or she will pay $ 149 less in tax, a 35.9 percent reduction. The tax reduction on income of $ 25 000, roughly equivalent to the average industrial wage, will be $ 181, a 5.4 percent drop.

Taxes down by $ 399 000 000 for single persons and childless couples

Reductions granted to single people and childless couples will total $ 399 000 000. This represents an average reduction of 7.0 percent. Families will enjoy these and other more advantageous benefits.

(D) Increased assistance for families

Our government has an abiding concern for the financial welfare of Québec families who care for children, sustain society and transmit its values and culture. Families must be adequately compensated for costs incurred to raise children.

In the course of elaborating the new taxation system, we must ask whether the essential needs of families have been properly considered, and whether their tax burden is acceptable. Moreover, in appointing a Minister for Family, Health and Social Services the government has accelerated the process of developing a policy respecting the family. In the wake of deliberations on the matter, it has become increasingly obvious that more substantial financial compensation must be accorded to families with children and, in particular, to large families.

Until now, government assistance for families under the taxation system has been multi-faceted, including exemptions for dependent children, family allowances, tax reductions for families, the APPORT program, and the availability allowance, not to mention child care expense deductions. Because the tax reform being presented today is aimed essentially at favouring families, it is essential to review each facet of the system. I will begin with those facets aimed at all families.

Basic taxation system

Exemptions for dependent children under the current system recognize essential needs of $ 2 010 of the first child, which will be increased by $ 220 to $ 2 230. In addition, the recognized essential needs of second and subsequent children, now $ 1 470, will be increased by $ 425 to $ 1 895. These increased values for essential needs will be converted into tax credits at the 20 percent rate.

Single-parent families will also benefit under the reform. The conversion of the present exemption at the rate of 20 percent would have resulted in a $792 tax credit for a single-parent family, which could now receive up to $849.

We began by abolishing the recovery of family allowances for children beyond the third one, in November 1986; non-recovery applied to the third child as well starting in April 1987. Unfortunately, the system was maintained whereby the government issued monthly cheques with respect to the first two children in a family, then recovered them at the end of the year.

Non-recovery of family allowances

For this reason, I am announcing the complete elimination of the recovery of family allowances paid in Québec. Through this measure, Québec families will receive $ 126 000 000.

These significant changes in the taxation system as it pertains to families will require a number of harmonization measures. The tax reduction granted last year to families will be increased. A two-parent family which paid tax on income of $ 20 822 or more prior to the reform will, in future, pay tax on $ 21 986 or more. In 1987, the same family paid tax on income of $ 13 004 and over.

Increase in APPORT benefits

It therefore becomes possible to increase benefits paid under the APPORT program, while maintaining the same marginal income tax rates among beneficiaries of the program. For this reason, family thresholds used to

calculate benefits under the APPORT program will be raised to bring them into line with the new zero taxation thresholds. A family with two children and a work income of $ 15 000 will receive an additional $ 589, to be added to the $ 2 214 already provided for under the program. Low-income families will thus be in a better position to cover basic necessities such as food and housing.

All told, assistance for all Québec families will be substantially increased. Let us take the example of a couple with two children between 6 and 11. On income of $ 25 000, this family would have paid $ 1 184 in Québec income tax prior to the reform. Under measures announced in this Budget, the family will enjoy a tax reduction of $ 450, or 38.0 percent. On $ 35 000 of work income, the same family previously paid $ 4 178 in tax; this amount will be reduced, under the reform, by $ 796, or 19.1 percent.

Assistance for young children

Aid granted specifically for young children consists of availability allowances and child care assistance.

The availability allowance cannot be claimed in conjunction with the child care expense deduction. As a result, the child care expense deduction is not as attractive as it should be, in terms of supporting child care services and in terms of encouraging people to work.

It is time to improve this provision. I am announcing today that the availability allowance will no longer be tied to the child care expense deduction. The availability allowance will become an allowance for children under 6, to be paid every month to the mother or relative who is responsible for a child; it will be added to family allowances, starting January 1, 1989. Assistance provided to parents in this way will, henceforth, be granted throughout the year, when they most need it.

Improved availability allowance

In addition, the new allowance for young children will be increased for all families with three or more children. Until now, availability allowances depended upon the number of children under 6. To be entitled to the maximum allowance of $ 500, a family must have three children in this age group. For this reason, the current annual payments of $ 100, $ 200 and $ 500 will henceforth be established according to each child's rank in the family among siblings under the age of 18. A family with three children, only one of whom is under 6, will receive $ 500 a year rather than $ 100.

Over an entire year, these two measures respecting young children will provide $ 52 000 000.

Assistance for newborn babies

We realized that the measures I have just announced needed to be pursued further. An analysis of various existing programs aimed at assisting families led us to conclude that a serious shortcoming exists with regard to support for newborn children.

$ 500 for the first and second child

For this reason, I am announcing a $ 500 allowance for the first child born starting in May 1988, and the same amount for the second child.

We must do even more for the third child. Most Québec families now have one or two children. Financial constraints are among the obstacles to having a third child.

$ 3 000 for third and subsequent children

Consequently, I believe it is important to encourage Quebecers to have larger families, and to dispel financial uncertainty and instil greater confidence in the future. I am announcing that, effective immediately, such families will receive $ 3 000 for third and subsequent children, to be paid in $ 375 quarterly instalments during the two years following the child's birth. Of course, the new scheme will apply proportionally to children now under 2, in that $ 375 per quarter will also be paid until they reach the age of 2.

It is important to point out that basic family allowances, new allowances for young children and allowances for newborn babies will be in the form of refundable tax credits. The allowances will serve as payments on tax credits; consequently, they will not be taxable. The Régie des rentes will make all such payments to the parent receiving family allowances.

Financial support for children

Substantial financial assistance for families

The measures I have just announced will substantially increase government financial support for families with children. In 1989, a family with one child and income of $ 25 000 will have an additional $ 1 297 in disposable income, in the form of reduced taxes and increased government benefits. The same family with three children will have an additional $ 4 388 in disposable income.

Such assistance is unequivocally higher than it was before we took office. Financial assistance for a family with three children totalled $ 880 in 1985. This represents an increase over four years of more than $ 3 500. Bearing in mind assistance from the two levels of government, starting in 1989, the same family with one child will receive an additional $ 2 089 compared with a childless family; with two children, it will receive nearly $ 4 000, and three children, $ 8 000.

Financial compensation for dependent children in the form of tax reductions or direct benefits will therefore increase substantially, particularly when the children are of pre-school age.

FINANCIAL SUPPORT FROM QUÉBEC AND OTTAWA FOR CHILDREN
1989 TAXATION YEAR
(in dollars)

Work income	12 000	15 000	20 000	25 000	30 000	40 000
Support from Québec						
one child	3 501	2 578	1 568	1 297	1 104	705
two children	4 801	3 533	2 522	1 999	1 806	1 407
three children	7 035	5 719	4 709	4 388	4 195	3 796
Support from Ottawa						
one child	836	836	836	792	522	251
two children	1 978	1 978	1 978	1 915	1 616	1 116
three children	3 654	3 654	3 654	3 544	3 172	2 672
Total support						
one child	4 337	3 414	2 404	2 089	1 626	956
two children	6 779	5 511	4 500	3 914	3 422	2 523
three children	10 689	9 373	8 363	7 932	7 367	6 468

Note 1 : In this table, support is provided for a couple with no child care expenses. There is one work income. The first child is 7. In the case of the couple with two children, the children are 2 and 7. The couple with three children has a newborn child, a child of 2 and one of 7.

Note 2 : Where applicable, the 1989 structure takes the anticipated Consumer Price Index into account.

Child care

A coherent policy respecting the family must focus on adequate child care services. The growing numbers of men and women on the labour market and increases in the number of single-parent families make such services a vital adjunct to support for families.

Access to quality child care services and government assistance for a portion of the cost of such services often affect an individual's decision to seek employment, or that of a family to contemplate a first, second or third child.

The government is aware of this situation and has adopted several measures designed to lighten child care costs. The annual ceiling on the child care expense deduction was raised significantly from $ 2 000 in 1985 to $ 3 770 at present. Since 1986, the spouse with the higher income has been able to claim this deduction, which can be used to directly reduce at-source tax deductions for the taxpayer claiming it. Special attention has also be paid to low-income earners with children. Under the APPORT program, in effect since early this year, wage earners benefiting from the program will, starting in July, be reimbursed 50 percent of their child care expenses, in addition to the assistance already provided through the financial exemption program of the Office des services de garde à l'enfance. The government has also earmarked substantial additional funds for recognized day care centres. By the end of this fiscal year, 17 000 new places will have been created since the 1985-1986 fiscal year, a 33 percent increase in three years. Furthermore, estimates tabled last March provided for a 14 percent increase in the budget of the Office, bringing the cumulative three-year increase to over 40 percent.

Despite the government's concerted efforts, we are determined to go even further. Sustained effort by different levels of government and numerous partners in the community will be necessary to ensure that Quebecers receive the diversified services they require.

The policy respecting child care services which the Minister for the Status of Women is elaborating and which the government will submit for consultation will contain balanced measures concerning the development of child care services. The policy should be implemented during the 1989-1990 fiscal year.

60 000 new day care places over the next seven years

The government is immediately announcing its intention to create 60 000 new day care places in the next seven years, virtually double the current number, with particular emphasis on diversification and the flexibility of facilities, to satisfy a variety of clienteles. To this end, public funds should be used as efficiently as possible, without overlooking the essential contribution of the private sector. An attempt will be made to satisfy the most pressing needs, particularly in the schools and the workplace. Measures will be aimed, above all, at encouraging businesses to establish day care facilities in the workplace. The policy will also contain provisions respecting profit-making day care centres.

However, the scope and content of the new Québec policy will be affected by the results of discussions currently under way between Ottawa and the provinces. Last December, the federal government unveiled a national child care strategy, including the establishment of a federal assistance fund covering special day care projects and a new cost-sharing program, in conjunction with the provinces, respecting child care services. Obviously, Québec has sought throughout these discussions to ensure respect for its powers and jurisdiction in the field of organizing day care services, and obtaining adequate, stable federal assistance. We must avoid, at all costs, a repeat of the situation we are

now facing in the realm of health and post-secondary education where Ottawa is unilaterally withdrawing its financial support, after encouraging the development of costly public services.

Age limit and ceilings on child care expenses raised

Discussions with the federal government are still under way and the Minister for the Status of Women will soon publish a plan of action respecting child care services. In the meantime, the government will allocate an additional $ 2 300 000 to upgrading various day care facilities and supporting a number of special summer day care projects. In addition, the child care expense deduction will be improved in two ways. First, the age of entitlement for the maximum deduction will be raised from 6 to 7; that for the basic deduction, from 11 to 13. Second, the maximum deductions will be raised from $ 3 770 to $ 4 000, and from $ 1 885 to $ 2 000. These measures will make it possible to better compensate for child care expenses in future.

Housing assistance

Seven-year $ 7 000 interest-free loan

To foster the harmonious development and stability of families, I am also announcing the establishment of a home ownership program, aimed at families with two or more children under 18, who have never owned a principal home. To enable families to make a down payment on a principal home, the government will guarantee an interest-free, seven-year loan equal to 10 percent of the mortgage, to a maximum of $7 000. To ensure that the program actually helps those for whom it is intended, the value of the home and the lot may not exceed $ 75 000. The Minister of Municipal Affairs and Minister responsible for Housing will shortly announce details of the program, which is part of the government's review of housing policy.

Impact of measures

$ 772 000 000 for families

This Budget contains significant measures to help families. The non-recovery of family allowances for the first and second child will generate $ 126 000 000 per year. Allowances for newborn babies will total $ 71 000 000 per year. The new allowance for young children will entail an additional $ 52 000 000. Improvements in the APPORT program represent a gain for families of $ 15 000 000.

To this figure must be added the effect of higher tax credits for dependent children and the reduction in the tax rate for families, and for other taxpayers which, with incidental measures, total $ 499 000 000. Overall, bearing in mind $ 9 000 000 in assistance for housing, families will enjoy $ 772 000 000 in benefits granted today, 61 percent of the benefits under the reform.

While financial support for families is substantial, it alone cannot satisfy their needs. We intend to develop child care services; for this reason, we are intervening in the realm of housing. There is still more to do. Québec must adapt and become more receptive to children and their parents, in the workplace, in the schools and in recreation. All Quebecers are invited to take up this challenge; the Minister for Family, Health and Social Services is responsible for coordinating government initiatives in this realm.

(E) The elderly

Under the tax reform, the elderly will also benefit from substantial tax reductions. At present, the elderly are entitled to a specific $ 2 200 exemption and a $ 1 000 deduction for retirement income. For someone paying the minimum tax rate, this represents a tax saving of $ 304 and $ 130, respectively. I am announcing that this new tax credit for the elderly will be raised to $ 440; the tax credit respecting retirement income will be increased to $ 200. For an individual taxed at the minimum rate, this represents a gain of $ 136 in the first instance, and $ 70 in the second.

It should be noted that employment income earned by the semi-retired reduced the former exemption and the former deduction. Last year, I announced that the first $ 10 000 of income would be exempt from this measure. I am pleased to announce that employment income will no longer have a bearing on tax credits for the elderly or on retirement income. This measure will mean additional savings of $ 15 000 000 for the semi-retired.

$ 86 000 000 in tax reductions for the elderly

To encourage the autonomy of the elderly and enable them to occupy a dwelling, the first $ 10 000 of income will not reduce the property tax refund to which they are entitled, which means an additional benefit of $ 12 000 000. I am proud to emphasize that these measures bring to $ 86 000 000 the tax reductions granted today to the elderly.

(F) Simplification

In addition to reducing taxes and making the taxation system fairer, it is important to simplify tax returns. Because the new system entails fundamental changes in relation to the old one, I have ensured that the measures adopted are as simple as possible and that they will make life easier for taxpayers who complete their own tax returns. To this end, the Minister of Revenue has provided valuable assistance.

Several of the measures announced will help achieve this objective, i.e. the measure governing the work income of the elderly, the incorporation of the 3 percent tax reduction into the new tax tables, abolition of the recovery of family allowances, and the replacement of the availability allowance with an allowance for young children.

Measures to simplify tax returns

I am also announcing a number of measures designed to simplify the tax return. To liquidate amounts due in the form of tax credits for a SODEQ and the Sociétés d'entraide économique, they will be refundable in 1988; consequently, these deductions will subsequently be eliminated. Because the consumption tax credit was not linked to taxes actually paid, its value has been integrated into personal tax credits and marginal tax rates.

The property tax refund cannot be incorporated into the tax tables in this manner as it depends upon the amount of property tax paid. The calculation will be simplified to benefit families.

The federal tax reform as it applies to charitable donations makes the taxation system more complex, as such donations must be converted into credits, using two conversion rates. Moreover, in some instances it reduces the incentive to make such donations. I am therefore announcing that the current deduction for charitable donations will be maintained.

(G) Cost of the reform

All the measures under the reform will take effect in 1988, when a transitional tax table will be employed; it will fully come into effect on January 1, 1989. The transitional table will make it possible to further reduce the deficit in 1988-1989 and grant taxpayers $ 605 000 000 for the 1988 tax year.

At-source deduction tables will be modified only once, next January 1. The accelerated tax refund program set up by the Minister of Revenue to ensure that taxpayers receive the refunds to which they are entitled next spring will be stepped up further.

Disposable income to increase by $ 1 257 000 000

For the 1989 taxation year, tax reductions and new benefits are substantial. Households without children, and single people will save $ 399 000 000. An even greater effort has been made to assist families, whose tax saving will reach $ 772 000 000, to which must be added $ 86 000 000 for the elderly, bringing the total value of benefits announced today to $ 1 257 000 000.

The measures I have just announced will enable us to attain much more effectively the objectives the government has been pursuing in the field of taxation since it came to power. Through the tax reductions granted today, we have taken giant strides toward achieving greater social justice and greater fairness throughout Québec society. In this regard, our first concern has been to better support Québec families. I believe that families can now contemplate the future of Québec with renewed optimism and confidence.

III. The economy and employment

(A) Outlook

Fiscal and budgetary policy is a major instrument of economic policy. Our government has established ambitious objectives with respect to job creation and the reduction of unemployment. Striking progress has been achieved in this respect. In 1986, 62 000 jobs were created; in 1987, the figure was 100 000. However, it is important to ask what the future holds in store to determine how we will attain our objectives.

The latest data for the United States and Canada indicate that demand, output and employment appear to be more robust than expected, despite the stock market crash last fall. Consequently, Québec should be able to continue to create new jobs at a satisfactory rate.

Growth in non-residential investments in 1988 at highest level since 1975

Optimism remains very high in Québec households and businesses. Retail sales will climb steadily. Major investments are planned for 1988. Non-residential investments will be a driving force in economic growth during the year. The 16.7 percent growth rate anticipated in Québec is, indeed, the best outlook since 1975. Sustained economic growth in the order of 3.5 percent is forecast for 1988. For the first time in several years, the annual unemployment rate should drop to nearly 9 percent.

Medium-term prospects are generally more modest. Forecast economic growth in the United States and Canada should hover around 3 percent per year. I expect that the substantial reduction in taxes announced today will enable Québec to do better. This is what we will have to do to create 80 000 jobs per year, a goal our government has been achieving, on average, since early 1986.

(B) Sustaining economic growth

It is possible to achieve marked growth in employment, if the Québec economy remains competitive and attracts sufficient investment. We have already established a number of conditions to achieve this end; others will have to be determined.

However, it is clear that monetary policy has a key role to play. Stabilizing prices is a very important objective. The Bank of Canada must recognize that inflationary pressure is not the same throughout the country. It must also ensure that interest rates favour investment and that the value of the Canadian dollar allows Canadian and Québec exporters to remain competitive, and at the same time stabilize prices.

Trade is another strategic sector. Our government supports the free trade agreement between Canada and the United States. The agreement opens up enormous possibilities for Québec firms, which should find the North American market a highly stimulating challenge. Such companies must take advantage of this challenge and, to this end, become highly competitive. Moreover, Québec society must adapt to new conditions. The government intends to adopt all the means at its disposal to enable Québec to derive the maximum benefit from free trade.

The government bears special responsibility with respect to the adaptation of workers and businesses in the new trade environment. The principal government departments concerned are already preparing a plan of action encompassing government programs in this respect.

(C) Measures to promote economic development and employment

Let us now turn to the measures the government intends to adopt to promote economic development and employment. Such measures are designed to establish a competitive personal and corporate taxation system, ensure the availability of sufficient venture capital, and foster substantial investment. Those which foster Québec's technological development will be emphasized.

Individuals

In 1985, the discrepancy between the maximum marginal tax rate in Ontario and Québec was 10.1 percentage points; since 1986, the figure has been 4.1 percentage points. The substantial tax reductions announced this evening will significantly close this gap to 2.6 percentage points in 1989, for the first time since 1977.

While I am extremely satisfied with this result, it is obvious that, in light of freer trade between Canada and the United States, we must further bolster the competitiveness of our taxation system. Following the reform, the maximum marginal tax rate in Québec, taking into account federal and provincial taxes, will still be much higher than that in neighbouring American states. Should the second phase of the federal tax reform be launched, we will be able to reduce this gap even more.

Deduction for strategic investments

Under the circumstances, I am announcing that Québec taxpayers can further reduce their income tax through a deduction for strategic investments equal to 15 percent of their total income. This deduction will be granted when they channel their savings into investments which are strategic for Québec's economic development. Under this provision, taxpayers will be able to avoid paying the alternative minimum tax up to this maximum of 15 percent of their income.

The deduction for strategic investments made in Québec will combine into a single account the Stock Savings Plan, mining, gas and oil exploration, research and development, investments in film and television production, Québec Business Investment Companies, and the Cooperative Investment Plan.

The competitiveness of the Québec taxation system will be improved for the benefit of taxpayers who take full advantage of this measure, and economic growth will be encouraged.

To make the deduction for strategic investments more effective, important changes will be made, especially in the Stock Savings Plan and deductions for investments in the film and television industry. Later, I will discuss improvements in the new scheme as it pertains to research and development and Québec Business Investment Companies.

— ***Stock Savings Plan***

The availability of venture capital to finance investments continues to pose a problem in the Québec economy.

For this reason, the Québec government has, over several years, adopted fiscal and budgetary measures designed to increase the availability of venture capital. The most important program in this respect is the Québec Stock Savings Plan. Introduced in 1979, it has now attained maturity as it has attracted tens of thousands of Quebecers to the stock market. However, the aftermath of the stock market crash has made it necessary to reassess the plan.

Much has been said about the drop in the value of shares eligible for inclusion in the QSSP, and the extent to which the decline has been greater than that noted for stock quotations overall. However, less has been said about the fact that these shares appreciated to a greater extent in recent years than other offerings. Between January 1985 and March 1988, for example, the Montréal Stock Exchange share index rose by 20.2 percent and that of the Toronto Stock Exchange by 27.7 percent. At the same time, the index of QSSP shares increased by 51.9 percent. These shares were subject to marked fluctuations. In light of the narrow market they occupy and their low level of liquidity, this is quite normal.

This does not mean that excesses did not occur. The QSSP drew to the stock market firms which did not have a sufficient number of shares outstanding. It also encouraged some individuals to assume risks higher than they realized. There is every reason to exercise greater caution at present. In my opinion, this caution must be exercised, above all, by investors themselves and by various intervening parties on the market. The Montréal Stock Exchange and the Commission des valeurs mobilières du Québec must ensure that share issues that are not sufficiently liquid are not admitted and that financial disclosure by issuers is as accurate, complete and realistic as possible. The development of QSSP investment funds should enable investors to better distribute their risks while benefiting from the advantages of the plan.

Rules governing the QSSP will be relaxed to facilitate the operation of the primary and secondary markets.

$ 5 500 QSSP ceiling eliminated

I am announcing first of all that the $ 5 500 ceiling on the QSSP deduction will be abolished in 1988. In this way, I hope that the attractiveness of QSSP shares among taxpayers will be enhanced, thus making Québec's taxation system more competitive. The 10 percent ceiling on income and the tax benefit itself will be maintained, thus limiting ill-considered risks and allowing more extensive use of other tax shelters.

To help more businesses obtain investment capital, the $ 25 000 000 ceiling on assets entitling taxpayers to a 100 percent deduction will be increased to $ 50 000 000. To the same end, the ceiling imposed on shareholders' equity will be raised from $ 10 000 000 to $ 20 000 000.

We must also adopt measures to ensure the liquidity of the secondary market with regard to the shares of these corporations, which attract few institutional investors. Beginning on June 1, 1988, it will be possible to acquire shares in these developing corporations on the secondary market, for the purpose of replacing shares which were eligible for inclusion in the QSSP. This measure should facilitate public share offerings by developing corporations which have issued shares in the past two years.

I have decided not to immediately introduce new rules designed to prevent the quick re-sale of shares purchased under the plan. I want to monitor market conditions in the coming months, especially in light of the changes I have just announced, before imposing more restrictive rules.

— *The film industry and mining exploration*

Deduction for the film industry raised from 133 1/3 percent to 166 2/3 percent

Among the other fiscal measures which play a major role in Québec's cultural development, those governing Québec film and television production are especially important. To sustain such development, the deduction for investments in the industry will be raised from 133 1/3 percent to 166 2/3 percent. Half of the basic 100 percent deduction will no longer be included in the net investment loss account. The $ 5 000 000 cost of both measures and the $ 5 000 000 recently earmarked for young artists will enable the government to complete another phase in its program to raise to 1 percent of its budget the funds allocated to culture.

Last December, I announced the introduction of an additional 33 1/3 percent deduction to reflect high risk in the mining exploration sector and the abolition over two years of the federal earned depreciation allowance. Ottawa has just acknowledged the need for a plan similar to Québec's. It would seem that the provisions Ottawa may ultimately adopt are not as advantageous as those offered in Québec, although full details of the plan are not yet known. For the time being, I intend to allow investors to choose between the additional Québec deduction and the measure Ottawa has adopted. The Québec mining industry will greatly benefit.

As a result of the benefits now granted, film and television production and resource exploration will become more attractive and profitable, all the more so as they will be included in the new strategic investment account announced this evening.

Companies

Corporate taxation system

Compared with the other provinces, Québec taxes profits less heavily than wages and capital. It is the highly efficient companies which benefit most from the Québec taxation system. It is hardly surprising that this system fosters economic growth, as simulations effected by various economists reveal.

In light of these advantages, it is important to preserve the main features of the Québec corporate taxation system and bring the taxation of profits into line with federal measures.

However, I have decided to return to Québec companies, through reduced taxes, additional sums generated by harmonization of the Québec and the federal corporate tax reforms, in a manner which will make it more worthwhile for companies to invest in Québec.

Investment and technology transfers

The taxation system plays an important role in ensuring that technology transfers become a key component of all firms. The tax system plays a vital role in this respect. Technology transfers are often achieved through the purchase of the most sophisticated machinery and equipment.

100 percent accelerated amortization of new investments in manufacturing and data processing

To maximize the profitability of technology transfers effected in Québec, I am announcing today the introduction of 100 percent accelerated depreciation on machinery and equipment used for the purpose of processing. The same 100 percent accelerated depreciation will apply to computers and data processing equipment. This deduction will be adjusted to ensure fair treatment for all companies that invest in Québec, regardless of the proportion of their turnover generated in Québec.

These measures will provide an additional $ 124 000 000 over the next two years, i.e. $ 40 000 000 in 1988-1989 and $ 84 000 000 in 1989-1990, which the government will devote to the economy. The amounts in question clearly indicate that our government intends to continue to encourage extensive investments in new technologies. The measures will also ensure that bringing the Québec and federal taxation systems into line does not increase the tax burden of Québec firms.

Research and development

Last year, I announced substantial additional appropriations and important tax incentives with regard to research and development. One facet of the strategy was designed to make it easier for partnerships to raise capital. Now that Ottawa has withdrawn from this field, the measure is no longer effective and must be replaced. A new procedure will be implemented for the external financing of research and development conducted in Québec.

Additional 50 percent or 100 percent deduction for R & D financing

The measure will entail granting an additional 50 percent or 100 percent deduction when a QSSP share issue or an eligible investment in a QBIC is aimed primarily at financing research and development. When the funds invested are intended to finance eligible expenses for which a corporation has decided to forego the tax credits specific to Québec, investors may claim the deduction.

Tax credit doubled for R & D wages paid by small and medium-sized businesses

Moreover, I have decided to bolster the assistance already provided to small and medium-sized businesses engaging in research and development. The 20 percent tax credit for wages paid in the realm of research and development will be increased to 40 percent for most firms eligible for the deduction pertaining to small businesses.

It is important to make more companies eligible for the tax credits introduced last year. To encourage collaboration between the private sector and universities, a higher, 40 percent tax credit applies to all expenses incurred for research and development in the universities, rather than the 20 percent tax credit on wages.

Assistance for business consortia

This type of basic research can also be conducted by business consortia. The Minister of External Trade and Technological Development is contemplating the establishment of such groups in the aerospace, biotechnology, computerization, micro-electronic and new materials industries. I am announcing that such consortia will be eligible for the 40 percent tax credit with respect to all eligible research and development expenses. The same applies to any consortium of the same type recognized by the Minister of External Trade and Technological Development.

$ 1 824 000 000 for R & D over the next five years

All told, the Québec government's contribution to research and development in the next five years will be appreciable. Programs and measures introduced prior to 1987 will cost $ 1 308 000 000 over the five-year period; initiatives introduced last year and in this Budget Speech will account for $ 516 000 000, an increase of nearly 40 percent. Overall, the government will contribute $ 1 824 000 000 over the next five years, thus ensuring that Québec meets the challenge of seeking excellence.

Oil refining and petrochemical industry

Gradual elimination of the special tax on oil refineries

It is important to revive the Québec oil refining industry and, indirectly, the Québec petrochemical industry. We must eliminate all obstacles to its competitiveness. I am announcing the gradual abolition over the next five years of the special tax on oil refining companies. In the meantime, I am introducing a new investment credit in this sector, and the non-application of the special tax on such investments.

(D) Impact on taxpayers

This Budget contains important tax measures designed to sustain private sector investment throughout Québec. Measures to encourage investment and support research and development will reduce the tax burden of companies by $ 104 000 000 in 1989. Thus, it will be possible to bring Québec and federal tax reforms into line without increasing the tax burden of companies. In addition, the new deduction for strategic investments will reduce personal income tax by $ 36 000 000 during the first year. All told, this represents a $ 140 000 000 decrease in the tax burden of Quebecers.

Reduction of tax burden in relation to Ontario

For many years, the tax burden of Quebecers has exceeded that of their Ontario counterparts, which has unequivocally posed a problem. The policies our government has adopted have made it possible to substantially reduce the discrepancy between tax burdens in both provinces. In 1985, the disparity for businesses was 9.6 percent, which will drop to 1.0 percent in 1989. For individuals, the gap was 10.5 percent in 1985, falling to 2.5 percent in 1989.

The measures announced today reflect our government's policies and objectives. By establishing a competitive taxation system and ensuring extensive investment, I believe we will be well prepared for the future. Our ambitious goal of creating 400 000 jobs in five years now seems increasingly within our reach. For this reason, I encourage all Quebecers to actively contribute to Québec's economic development.

IV. Public investments and regional vitality

Each region has its particular characteristics, resources and potential; each one must participate fully in economic growth in order to realize Québec's economic potential. It is essential to bank on regional vitality and ensure that investments and job creation are distributed throughout Québec. The substantial support this Budget provides for private and public sector investment must reflect the specific needs of each region.

Hydro-Québec investments

Public investments are a linchpin in regional development. Dam construction in remote areas is a good example. Our government's efforts to develop the immense potential of Québec's hydroelectric resources and relaunch Hydro-Québec construction projects are well known. Fortunately, such efforts are beginning to bear fruit. Prime Minister Robert Bourassa recently announced the beginning of work on phase II of the James Bay project.

In 1988, Hydro-Québec's capital expenditures are expected to total more than $ 2 200 000 000, which will quickly rise to nearly $ 3 000 000 000 in 1990.

Capital expenditures to enhance the environment

$ 400 000 000 a year for water purification

In recent years, increasingly pressing environmental needs have arisen. The government plans to strongly emphasize investments in this sector because of the urgent nature of the situation and the high potential of investments for job creation. For example, water purification projects launched in collaboration with the municipalities will generate roughly $ 400 000 000 in capital expenditures each year and improve the quality of life of Quebecers everywhere.

$ 400 000 000 over 10 years for the agriculture sector

Animal waste can be a major source of water pollution. The ministère de l'Environnement, concerned with preventing water contamination, has issued standards in this respect. Applying these standards will cost a great deal, as farmers are well aware. Our government feels that it is unacceptable for the farm sector alone to bear the cost of this policy and has decided to help it. To this end, the Minister of the Environment and the Minister of Agriculture, Fisheries and Food recently announced $ 400 000 000 in investments over 10 years. The funds will make it possible to combat and prevent agricultural pollution. The program will create 8 000 jobs throughout Québec.

Today's Budget adds substantial investments to programs already under way throughout Québec. Additional funds will be allocated to a number of programs which will decisively affect regional development.

Investment in the road and highway network

In last year's Budget Speech, I announced $ 200 000 000 in additional investments to improve road safety throughout Québec. In 1988-1989, $ 70 000 000 of that amount has been earmarked for this purpose.

Additional $ 30 000 000 for the road and highway network

It is important to speed up construction and repairs on Québec's regional road and highway network. Some $ 30 000 000 will be added to current appropriations. Outlying regions, in particular, will benefit from an improved road and highway network; they will also benefit from the jobs created by the construction program.

Forest road construction

Additional $ 56 000 000 over five years for forest road construction

We must further develop Québec forests, which will necessitate the construction of new access roads, in collaboration with the forest industry. The forest road construction program is to be stepped up. This will enable us to satisfy the need for wood. The government will earmark some $ 56 000 000 for this purpose over the next five years, in addition to the $ 30 500 000 already allocated to the project. Private sector participation will make it possible to double the value of the work undertaken.

Special job programs

$ 6 000 000 for job creation in the Gaspésie and Îles-de-la-Madeleine region

The Gaspésie and Îles-de-la-Madeleine region has been the hardest hit by unemployment. Last year, we implemented a special job-creation program in this region, which helped reduce unemployment. There is every reason to pursue our efforts. As a result, an additional $ 6 000 000 will be earmarked for such programs in the Gaspésie and Îles-de-la-Madeleine region, to be devoted to repairing and improving recreational and tourist facilities and roads and highways. More than 500 jobs will be created.

$ 7 000 000 for forestry-related jobs

A pilot project in forestry-related jobs was launched in the same region in 1987. The conclusive results obtained have encouraged me to continue the program and extend it to all forested regions of Québec. Some $ 7 000 000 will be allocated to a forestry job-creation program, aimed at creating a pool of specialized manpower, at a time when private sector firms are about to invest heavily in forestry work.

Waterworks and sewer system assistance program

$ 50 000 000 over five years for waterworks and sewer systems

A number of small municipalities are experiencing problems with their drinking water supplies and waste water disposal. Solving these problems can cause financial strain, especially for the neediest municipalities. To ensure that delays in completing this work do not compromise municipal development or threaten public health, the government must provide the necessary financial assistance. Therefore, $ 50 000 000 will be allocated over the next five years to the establishment of a new waterworks and sewer system assistance program. The new program will be designed for municipalities with 7 500 or fewer inhabitants and assistance will be tailored to the municipality's ability to pay; thus, it will be possible to ensure that government assistance benefits the municipalities and regions most in need. The Minister of Municipal Affairs will shortly announce details of this new program.

Assistance for regional development

Additional $ 12 000 000 for the regional development fund

The Minister of Transport and Minister responsible for Regional Development is about to announce a plan of action respecting regional development, consisting of several appropriate measures.Funds will undoubtedly be made available shortly to implement them. Some $ 12 000 000 will be allocated to the regional development fund, previous appropriations for which totalled $ 22 434 000.

Regional QBICs

One facet of the plan of action is to promote initiative and entrepreneurship in the regions. In many instances, sound performance has resulted from the more extensive involvement of each region's economic agents over the past few years. The creation and expansion of several small and medium-sized businesses and the establishment of various programs to foster job creation bear witness to regional vitality.

Additional tax advantages for regional QBICs

It is important that the taxation system sustain the vitality of regional entrepreneurs. To this end, I am announcing the introduction of a new procedure to facilitate the raising of venture capital in the regions. Québec already grants tax benefits through Québec Business Investment Companies (QBICs). The measures introduced today increase the tax benefit arising from the establishment of QBICs in outlying regions.

Any individual investing in a regional QBIC will receive an additional 25 percent deduction, bringing the usual 100 percent deduction to 125 percent. For QBICs in which all shareholders are employees of the company, the deduction will be raised from 125 percent to 150 percent. Moreover, it will be necessary to invest a minimum of $ 50 000 in a regional QBIC, compared with $ 100 000 in other QBICs.

Grants covering start-up costs of QBICs

In addition, QBICs will be entitled to special assistance from the Société de développement industriel, in the form of a grant covering 50 percent of start-up costs, including incorporation fees and initial investment charges, to a maximum of $ 5 000. QBICs established by employees may be eligible for up to $ 10 000, a measure which will facilitate their creation throughout Québec, with particular emphasis on the regions.

V. Financial framework

Let us now turn to the impact on the financial framework of new economic parameters and the budgetary and fiscal measures announced today.

STATEMENT OF FINANCIAL TRANSACTIONS 1988-1989
(In millions of dollars)

1. Budgetary transactions		
Revenue	29 334	
Expenditure	– 30 934	
Deficit		– 1 600
2. Non-budgetary transactions		
Investments, loans and advances	– 767	
Retirement plans acount	1 241	
Provision for financing the water purification program	14	
Other accounts	132	
Balance		620
3. Net financial requirements		– 980
4. Financing		
Change in cash position	–	
Change in long-term debt	980	
Total financing		**980**

Budgetary revenue

Anticipated budgetary revenue for 1988-1989 is $ 29 334 000 000, a 3.3 percent increase over the year just ended. This rather modest growth is essentially attributable to the substantial tax reductions announced in this Budget, and to sluggish growth in federal transfers, i.e. 3.7 percent.

Budgetary expenditure

Budget estimates tabled last March 25 provided for expenditures of $ 31 587 000 000 in 1988-1989, an increase of 5.5 percent over 1987-1988.

Budgetary revenue was much higher than forecast in 1987-1988 and we opted to pre-record $ 849 000 000 in expenditures, payment of which would normally have been made during the current fiscal year and in 1989-1990. In 1988-1989, budgetary expenditure should increase by only 0.6 percent in relation to last year, totalling $ 30 934 000 000.

When pre-recorded expenditures are accounted for in the year they should normally have been assumed, and bearing in mind that family allowances will henceforth be deducted from revenue rather than appearing as expenditure, on a comparable basis, expenditures will grow by 5.7 percent in 1988-1989. This increase is slightly higher than the inflation rate forecast this year, but markedly lower than growth in Québec GDP, which should reach 8.3 percent.

Budgetary deficit

I have already indicated my intention to continue my efforts to put Québec's finances in order to ensure that the government borrows only to finance capital expenditures. This is hardly an easy objective to achieve, but it is the only way to stop transferring to future generations the burden of paying for public services enjoyed by their predecessors.

$ 750 000 000 reduction in the deficit

In keeping with the policy of effective, responsible management our government adopted, we have been able to substantially reduce the budgetary deficit in two years. In addition to making possible a marked reduction in taxes, the same strategy will enable us to move decisively ahead in 1988-1989. The budgetary deficit, which was $ 2 350 000 000 in 1987-1988, will total $ 1 600 000 000 in the current fiscal year, a reduction of $ 750 000 000. During the first three years of our mandate, the budget deficit has been halved.

In addition, provided economic conditions remain favourable and we maintain the same administrative rigour, we intend to continue reducing the deficit in the coming years. It should reach $ 1 500 000 000 in 1989-1990, and $ 1 400 000 000 in 1990-1991.

As a proportion of GDP, the deficit has fallen from 3.8 percent in 1984-1985 to 1.1 percent this year, below the level noted in the mid-1970s.

Net financial requirements

Net financial requirements below one billion dollars

Forecast improvements in net financial requirements are quite remarkable. For the first time since 1975-1976, this year they will total less than one billion dollars, i.e. $ 980 000 000.

The reduction in the government's net financial requirements should be equally significant over the next two years, as they should reach $ 750 000 000 next year and $ 500 000 000 in 1990-1991. As a proportion of GDP, they have dropped from a peak of 3.2 percent in 1980-1981 to 0.7 percent this year, below the figure recorded since 1975-1976.

Financing

Loan repayments in 1988-1989 are expected to total $ 1 380 000 000; gross borrowings should reach $ 2 345 000 000, a reduction of $ 854 600 000 in relation to 1987-1988. However, the government may, as it has done in recent fiscal years, take advantage of advance payment options on certain existing loans and renegotiate more favourable terms. As a result, repayments and new borrowings for the year will be increased in an equivalent fashion.

Debt

Debt no longer growing faster than GDP

The reduction in the deficit, net financial requirements and borrowings has already produced the desired improvement in Québec's financial position. In 1986-1987, the government's direct debt stopped growing more quickly than our ability to repay, as measured by the gross domestic product. In 1987-1988, for the first time in years, the government's total debt, i.e. the direct debt plus the public and parapublic employee retirement plans account balance recorded in the government's liabilities, stopped growing more rapidly than our ability to repay. Consequently, provided interest rates remain stable, the growth of expenditures earmarked for debt service, both direct and total, will no longer reduce the government's room to manoeuvre each year.

The improved financial situation is not restricted to the government, but affects the entire public sector. In 1987, public sector net borrowings in Québec were, for the first time since 1979, lower than capital expenditures. In 1987-1988, we completed another phase, when the public sector net debt supported by tax revenues (total government debt, less the net value of its investments in government corporations, the debt of the health and education systems and the local sector) began to grow more slowly than our ability to repay.

Despite significant progress achieved in putting Québec's finances in order, it would be erroneous to believe that discipline is no longer necessary. The net debt, supported by taxes and accumulated by the Québec public sector, is among the highest in Canada, as a proportion of GDP. Not only has it been necessary to stabilize the debt, but, one day, we shall have to start reducing it.

To do so without overtaxing Quebecers or reducing essential public services is the challenge which lies ahead.

Conclusion

The measures announced in this Budget Speech are a dramatic step toward the realization of the government's major objectives.

The reorganization of public finances can be best illustrated by the $ 750 000 000 reduction in the budget deficit, compared with last year, which was achieved without introducing new taxes or raising old ones. Since we took office, the deficit has been reduced by more than $ 1 700 000 000. Is it not obvious that this is the result of efficient, responsible management?

In 1989, sound financial health will enable us to return $ 1 257 000 000 to taxpayers under the tax reform and reduce the tax burden of corporations and investors by $ 140 000 000. Before we came to power, Quebecers paid 10 percent more taxes than their Ontario counterparts; the discrepancy will drop to 2.5 percent in 1989. Québec firms paid 9.6 percent more taxes in 1985 than their Ontario counterparts, but will pay only 1.0 percent more in 1989. We have dramatically improved the competitiveness of the Québec taxation system, a key to economic growth, in relation to that of our most important Canadian neighbour.

Despite our desire to tidy up public finances and bolster competitiveness in the taxation system, the government has not hesitated to find the resources to assume its responsibilities toward the family. While all taxpayers will benefit from the tax reform, families will be the big winners following the tax reductions announced today; they will receive more than 61 percent of the total gains, i.e. $ 772 000 000. With increased financial support for child rearing, they can now contemplate the future with renewed optimism.

Québec enjoyed exceptional economic growth last year; new jobs totalled 100 000. Growth will be vigorous this year. In 1988, more than 80 000 jobs will be created in Québec. The climate of confidence our government has instiled and the emphasis it has placed on economic activity have contributed to this result. Fiscal policy governing investment which I have announced today, both as it pertains to individuals and companies, will further bolster competitiveness and create new jobs throughout Québec.

Economic development must not be restricted to a handful of regions. For this reason, I have announced measures respecting public and private investment, special job-creation programs and fiscal measures designed to foster local entrepreneurship, which should enable everyone to participate in Québec's economic growth.

Our economic policies have been more effective, public finances are sounder, and the economy has improved markedly. All Quebecers are benefiting from new jobs and increased prosperity. Moreover, the government is in a position to respond appropriately to the needs of Quebecers. We can now look confidently to the future.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
BUDGETARY REVENUE
1988-1989 FORECAST
(In millions of dollars)

1. Income and property taxes	
Personal income tax	9 537.0
Employer contributions to health services fund	2 143.0
Corporate taxes [1]	1 475.0
	13 155.0
2. Consumption taxes	
Retail sales	4 342.0
Fuel	1 232.0
Tobacco	529.0
Meals and hotels	443.0
Other [2]	159.0
	6 705.0
3. Duties and permits	
Motor vehicles	355.0
Alcoholic beverages	62.0
Natural resources [3]	187.0
Pari-mutuel	27.0
Other	117.0
	748.0
4. Miscellaneous revenue	
Sales of goods and services	233.0
Interest	334.0
Fines, confiscations and recoveries	253.0
	820.0
5. Revenue from government corporations [4]	
Société des alcools du Québec	378.0
Loto-Québec	400.0
Hydro-Québec	583.0
Other	132.0
	1 493.0
Total own-source revenue	**22 921.0**
6. Government of Canada transfers	
Equalization	3 198.0
Other transfers pertaining to fiscal arrangements	1 835.0
Contributions to welfare programs	1 127.0
Other programs	253.0
Total Government of Canada transfers	**6 413.0**
Total budgetary revenue	**29 334.0**

1. Includes taxes on corporate profits, capital and insurance premiums.
2. Includes taxes on telecommunications and electronic advertising.
3. Includes forest, mining and water resources.
4. Includes dividends declared and changes in surpluses or deficits accumulated by government corporations which are consolidated, concomitant with a reevaluation of the government's investment therein.

GOUVERNEMENT DU QUÉBEC
STATMENT OF FINANCIAL TRANSACTIONS
BUDGETARY EXPENDITURE
1988-1989 FORECAST
(In millions of dollars)

Budgetary expenditure by department or agency	
Affaires culturelles	237.2
Affaires municipales	612.2
Agriculture, Pêcheries et Alimentation	560.8
Approvisionnements et Services	65.2
Assemblée nationale	63.6
Commerce extérieur et Développement technologique	53.7
Communautés culturelles et Immigration	37.4
Communications	117.7
Conseil exécutif	37.3
Conseil du trésor	19.6
Éducation	5 186.8
Énergie et Ressources	477.4
Enseignement supérieur et Science	2 784.6
Environnement	354.8
Finances	3 319.6
Industrie et Commerce	340.3
Justice	393.6
Loisir, Chasse et Pêche	211.9
Main-d'oeuvre et Sécurité du revenu	2 791.3
Office de planification et de développement du Québec	56.6
Organisme relevant du ministre délégué à l'Administration	900.5
Organismes relevant de la ministre déléguée à la Condition féminine	102.6
Organismes relevant de la Vice-présidente du Conseil exécutif	209.6
Personnes désignées par l'Assemblée nationale	28.0
Régie de l'assurance-maladie du Québec	1 998.8
Relations internationales	63.7
Revenu	280.8
Santé et Services sociaux	7 540.2
Solliciteur général	643.6
Tourisme	79.3
Transports	1 776.2
Travail	105.5
Provision for bad debts	66.0
Total	**31 516.4**
Less: ☐ **net lapsed appropriations**	**225.0**
☐ **change in the provision for losses on investments**	**83.4**
Total expenditure announced in the Estimates	**31 208.0**
Plus: ☐ **additional measures announced in the Budget**	**91.3**
☐ **revision of economic parameters**	**25.0**
☐ **sylvicultural work recorded as an expenditure rather than a deduction from revenue**	**30.0**
Less: ☐ **impact of pre-recording expenditure in 1987-1988 over and above what was announced in the Estimates**	**246.0**
☐ **family allowances as a deduction from revenue**	**59.0**
☐ **net additional lapsed appropriations**	**115.3**
Total probable expenditure	**30 934.0**

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
NON-BUDGETARY TRANSACTIONS
1988-1989 FORECAST
(In millions of dollars)

1. Investments, loans and advances		
Enterprises of the gouvernement du Québec		
Share capital and invested capital		
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	– 17.5	
Société générale de financement du Québec (SGF)	—	
Société nationale de l'amiante (SNA)	—	
Société québécoise d'exploration minière (SOQUEM)	—	
Société québécoise d'initiatives agro-alimentaires (SOQUIA)	—	
Société québécoise d'initiatives pétrolières (SOQUIP)	—	
Other	– 20.0	
		– 37.5
Change in equity value of investments		– 616.9
Loans and advances		
Société immobilière du Québec (SIQ)	75.0	
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	– 25.0	
Société de développement industriel du Québec	– 96.7	
Other	– 27.9	
		– 74.6
Total enterprises of the gouvernement du Québec		– 729.0
Individuals, corporations and others		– 40.0
Municipalities and municipal agencies		2.0
Total investments, loans and advances		– 767.0
2. Retirement plans account		
Employer and employee contributions	1 883.0	
Benefits and other payments	– 642.0	
Total retirement plans account		1 241.0
3. Provision for financing the water purification program		14.0
4. Other accounts		132.0
Non-budgetary transaction surplus		**620.0**

Note: A negative amount indicates a financial requirement and a positive amount, a source of financing.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
FINANCING
1988-1989 FORECAST
(In millions of dollars)

1. Change in cash position		—
2. Change in long-term debt		
New borrowings	2 345.0	
Change in debt resulting from amortization of foreign exchange	15.0	
Repayments of borrowings	– 1 380.0	
Total change in long-term debt		980.0
Total financing		**980.0**

Note: A negative amount indicates a financial requirement and a positive amount, a source of financing.

APPENDIX A

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I. Reform of personal income tax and assistance for families

Since late 1985, the Québec personal income tax system has undergone several important changes. Measures adopted on January 1, 1986, granted exemptions for dependent children and increased deductions for employment-related expenses. At the same time, marginal tax rates were significantly lowered with respect to income brackets in which the tax burden was no longer competitive. Ultimately, families benefited from 65 % of the resulting tax reductions.

Further modifications introduced in the 1987-1988 Budget Speech focused primarily on increasing the disposable income of low and middle-income families, who obtained $188 000 000 in tax reductions and additional transfers. A new tax reduction was introduced to raise the zero tax threshold for families. For example, as of January 1, 1988, the zero tax threshold for a family with two children was increased from $ 13 004 to $ 20 822 of work income. Moreover, the APPORT program (assistance program for low-income families) was introduced in 1988, aimed at working families. The program was also conceived as an incentive to seek employment.

In his statement of December 18, 1987, issued in the wake of the federal tax reform, the Minister of Finance announced that measures to broaden the income tax base advocated by Ottawa would, by and large, be incorporated into the Québec taxation system. However, it was decided at that time to maintain and improve the tax benefits related to investment instruments of strategic importance to the Québec economy, in particular, additional deductions for resource exploration, Québec film production and research and development. Despite these improvements, harmonization measures would have generated $ 322 000 000 in additional personal income tax revenue for the government in fiscal 1988. In his statement, the Minister of Finance indicated that the 1988-1989 Budget Speech would outline decisions respecting basic, specific aspects of the Québec taxation system, and that the resulting tax reductions would more than offset revenues generated by the December statement, even before they were collected. These decisions concern, in particular, tax rates and the choice between exemptions and tax credits.

Competitive taxation system

The tax reform announced today is aimed primarily at reducing personal income tax and lowering tax rates, to improve the competitiveness of the Québec taxation system in relation to that of its principal trading partners. The reform accentuates measures adopted in recent years to favour families, especially through improvements in measures adopted last year, the non-recovery of family allowances, and the adoption of allowances for newborn and young children. The reform also includes measures concerning child care and home ownership. These new measures will appreciably increase the financial assistance the government provides for families, especially those with three or more children, and will mitigate financial obstacles which prevent some families from contemplating a third child. The measures further recognize the important contribution large families make to society.

Disposable household income up $ 1 257 000 000 in 1989

The reform of personal income tax announced today will apply starting in the 1988 taxation year; it will take full effect in fiscal 1989. It includes sweeping changes in the personal income tax table and the conversion of exemptions into non-refundable tax credits. Reform of personal income tax and measures covering families will increase disposable household income by $ 605 000 000 in fiscal 1988, and $ 1 257 000 000 in fiscal 1989. Families with children will receive 61 % of these gains, i.e. $ 772 000 000 in 1989. The average gain for families with children is estimated at $702 for the 1989 taxation year, compared with $ 216 for other taxpayers.

Tax rates will be reduced, allowing taxpayers to retain a larger proportion of their work income. The maximum marginal rate will be set at 24 % in 1989, thus reducing the discrepancy between Québec and Ontario, one of our main trading partners, to 2.6 percentage points, its lowest level in 10 years.

Reform of personal income tax

The new tax table

The current personal income tax table consists of 16 tax brackets, with rates ranging from 13 % to 28 %.

Under the present taxation system, all individuals benefit from a tax reduction equivalent to 3 % of tax otherwise payable.

Under the tax reform, the personal income tax table will be replaced by a table made up of five income brackets. Starting in the 1988 taxation year, it will also incorporate the 3 % tax reduction, thereby avoiding an additional calculation for taxpayers.

Five brackets between 16 % and 24 %

To facilitate the application of this reform beginning in the 1988 taxation year, tax rates will range from 16 % for the first bracket (taxable income of up to $ 7 000), to 26 % (taxable income above $ 50 000). In the 1989 and subsequent taxation years, the tax rates will range from 16 % to 24 % for the same tax brackets.

COMPARISON BETWEEN THE PRESENT AND THE NEW PERSONAL INCOME TAX TABLES

Present table		New table		
Taxable income bracket [1]	Marginal rate of bracket 1988	Taxable income bracket [1]	Marginal rate of bracket	
			Transition year 1988	Full reform 1989
(in dollars)	(%)	(in dollars)	(%)	(%)
0 - 577	13	0 - 7 000	16.0	16
577 - 1 244	14	7 000 - 14 000	19.5	19
1 244 - 2 015	15	14 000 - 23 000	21.5	21
2 015 - 2 906	16	23 000 - 50 000	24.5	23
2 906 - 3 936	17	50 000 and over	26.0	24
3 936 - 5 127	18			
5 127 - 6 504	19			
6 504 - 8 095	20			
8 095 - 9 935	21			
9 935 - 12 061	22			
12 061 - 14 519	23			
14 519 - 18 820	24			
18 820 - 26 347	25			
26 347 - 39 169	26			
39 169 - 61 606	27			
61 606 and over	28			

1 The present taxable income brackets cannot be compared with those in the new table because the conversion of personal exemptions into tax credits provided for in the income tax reform has a direct effect on taxable income levels. While personal exemptions reduce the taxpayer's taxable income level, personal tax credits directly reduce the income tax payable.

Essential needs

To ensure horizontal equity among various categories of households, we must avoid taxing the portion of a taxpayer's income devoted to recognized essential needs including those of dependants. Until now, the Québec taxation system has employed exemptions equivalent to the value of recognized essential needs to achieve horizontal equity.

It is also possible to indirectly achieve this objective by granting tax credits designed to compensate taxpayers for taxes collected on income used to cover their essential needs. The federal government favoured this approach in its tax reform, by converting exemptions into tax credits. More or less the same results are achieved in a tax system with exemptions as in a system with tax credits, depending on the rate used to convert exemptions into credits and the tax rates.

When exemptions are converted into tax credits, the higher the conversion rate is, the more the system will benefit taxpayers with dependants in relation to those without dependants. Conversely, choosing a conversion rate equivalent to the lowest marginal rate in the tax table will shift the tax burden from taxpayers without dependants to those with dependants.

Essential needs converted into tax credits

Given the impetus to harmonize the Québec and federal taxation systems and our desire to be fair to taxpayers with dependants, especially families with children, it has been decided to convert exemptions and a number of deductions into non-refundable tax credits, using a 20 % conversion rate, which falls half-way between the minimum and maximum marginal rates in the tax table.

Furthermore, the value of essential needs recognized for tax purposes, converted into tax credits at the 20 % rate, will be adjusted according to the findings of a study on the cost of covering essential needs conducted by the ministère de la Main-d'oeuvre et de la Sécurité du revenu, based on expenses actually incurred by low-income working families.

Recognized essential needs include short, medium and long-term needs as defined in a 1987 position paper, *Towards an Income Security Policy*, published by the ministère de la Main-d'oeuvre et de la Sécurité du revenu.

The value of essential needs has been set at projected 1989 levels and will apply to the 1988 and 1989 taxation years. This change will result primarily in a substantial increase in the recognized value of the essential needs of dependent children; the increase in the recognized needs of two children is equivalent to 18.5 % of the amount of such needs under the current taxation system. Consequently, starting in the 1988 taxation year, families with dependent children will benefit from the recognized value of essential needs which will apply in 1989. On the other hand, as the values of basic essential needs and of the essential needs of a married person are already higher than those revealed by the findings of the study, they will be maintained at present levels. The value of recognized additional essential needs with regard to persons living alone will be increased by 10 %.

SUMMARY OF MAIN EXEMPTIONS AND VALUE OF RECOGNIZED ESSENTIAL NEEDS CONVERTED INTO TAX CREDITS
(In dollars)

Credit / exemption	Value of exemption before reform	Value of essential needs recognized under the reform	Value of tax credit
• basic	5 280	5 280	1 056
• a person living alone	820	900	180
• a married person	5 280	5 280	1 056
• a dependent child [1]			
— general			
first child	2 010	2 230	446
second child and subsequent children	1 470	1 895	379
— for post-secondary studies [2]	1 505 per term	1 525 per term	305 per term
— for a single-parent family [3]	1 005 [4]	1 115	223
• other dependants [5]			
— general		1 895	379
— suffering from a handicap [6]	5 020	5 280	1 056
• a person suffering from a physical or mental handicap [7]	2 200	2 200	440

1 Dependent children include the children, grandchildren, brothers, sisters, nephews and nieces under 18 years of age at any time during the year, or 18 or over and studying full time.

2 Like the exemption, the tax credit for post-secondary studies is limited to two terms.

3 The tax credit for single-parent families is equal to 50 % of the credit for the first dependent child, and is added to it.

4 The value of the exemption for single-parent families was increased to $ 1 130 under a guarantee clause which stipulated that the exemption for a person living alone, for a first dependent child or for a single-parent family could not be lower than $ 3 960. This guarantee is no longer necessary for single-parent families since generally the value of their essential needs totals $ 4 245, i.e. $ 900 for a person living alone, $ 2 230 for the first child and $ 1 115 for a single-parent family.

5 Other dependants include anyone 18 years old or over and related to the taxpayer by blood, marriage or adoption.

6 This tax credit cannot be added to the general tax credit for other dependants.

7 An individual may also claim the portion of this tax credit unused by his or her dependent spouse, children or grandchildren suffering from such a handicap.

— *Basic essential needs and essential needs of a married person*

$ 1 056 tax credit

The value of essential needs, reflected in 1988 in the basic personal exemption of $ 5 280 and the $ 5 280 exemption for a married person will be converted into a tax credit at the 20 % conversion rate. Starting in the 1988 taxation year, these essential needs will be reflected in tax credits of $ 1 056.

Just as a spouse's income reduced the married person's exemption, such income will reduce the value of essential needs for the purpose of calculating the tax credit for a married person.

— ***Additional essential needs of a person living alone***

$ 180 tax credit

For the 1988 taxation year, an individual living alone or with a person covered by the dependant's exemption in an independent dwelling will benefit from an $ 820 personal exemption for people living alone.

Under the personal income tax reform, the value of additional essential needs recognized with respect to such a person will be increased to $ 900 and converted into a tax credit of $ 180. This credit will be granted to individuals who maintain an independent dwelling in which they live alone or with a person covered by the tax credit for dependent children.

— ***Essential needs of dependants***

Under the current taxation system, an individual may claim a personal exemption for dependants.

This exemption is now $ 2 010 for the first dependant, and $ 1 470 for the second and subsequent dependants. This exemption primarily covers children, grandchildren, parents and other persons related to the individual or the individual's spouse. Such persons must be under 21 or if they are 21 or over they must be attending school or university full time. They must also be dependent upon the individual and normally live with him or her. Furthermore, the taxpayer may not claim this exemption for a dependant for whom the exemption for a physically or mentally handicapped dependant is claimed.

Under the personal income tax reform, persons covered by the exemption for dependants will be classified as dependent children or as other dependants. Starting in the 1988 taxation year, dependent children will entitle individual taxpayers to a tax credit equivalent to 20 % of the value of the child's recognized essential needs.

To this tax credit for dependent children will be added a tax credit for post-secondary education, when the child is studying full time. When the child is the dependant of a single parent, a tax credit for single-parent families will also be added to the tax credit for dependent children.

A tax credit will be granted starting in the 1988 taxation year for other dependants who do not entitle the taxpayer to a tax credit for dependent children. Moreover, this tax credit will be replaced by a more generous tax credit when dependence results from a physical or mental handicap.

— *Tax credits for dependent children, post-secondary education and single-parent families*

First child : $ 446 tax credit;
subsequent children : $ 379

For the purpose of calculating the tax credit for dependent children, the $ 2 010 in essential needs currently recognized for a first dependant and the $ 1 470 recognized for second and subsequent dependants will be raised to $2 230 and $ 1 895, respectively, then converted into tax credits of $ 446 and $ 379.

Post-secondary education :
$ 305 tax credit per term

The value of essential needs recognized with respect to students enrolled at the post-secondary level, currently $1 505 per term, will be raised to $ 1 525 and converted at the 20 % conversion rate into a tax credit of $ 305 per term, for a maximum of two terms, as is presently the case. The tuition fee deduction will be maintained in its current form, thus reducing the dependent child's income for the purpose of establishing the tax credits to which the taxpayer is entitled.

The exemption for single-parent families and the exemption for heads of households will be replaced by a single tax credit for single-parent families associated with the tax credit for dependent children. The value of essential needs recognized with regard to the tax credit will equal 50 % of $ 2 230, which is the value of essential needs recognized with respect to a first dependent child. The amount in question, $ 1 115, will be converted at the 20 % conversion rate into a $ 223 tax credit for single-parent families.

Given that the tax credit for single-parent families is added to the $ 446 tax credit for the first dependent child and provided the taxpayer also benefits from the $ 180 tax credit for an individual living alone, the value of essential needs recognized with respect to a single-parent family only will total $ 4 245, compared with $ 3 960 under the current taxation system.

For the purpose of calculating tax credits for dependent children, post-secondary education and single-parent families, the age of persons dependent upon the individual will be set at under 18 years at any time during the year, or 18 and over when the dependant is attending school or university full time. For this purpose, dependants will include the children, grandchildren, brothers, sisters, nephews and nieces of the individual or the individual's spouse.

Tax credits for dependent children, post-secondary education and single-parent families cannot be claimed for persons with respect to whom the taxpayer has claimed a credit for the physically or mentally handicapped; this rule applies to the current exemption. A taxpayer now entitled to a tax credit with regard to a physically or mentally handicapped dependant may also claim these credits for another dependant.

An individual who was not married during the year and has not lived maritally for at least one year with another person, or who is married but does not live with his or her spouse, does not provide for the spouse's needs and is not dependent upon him or her can claim the tax credit for single-parent families.

Just as the income of dependants now reduces the value of personal exemptions for dependants, the income of dependent children will successively reduce the value of essential needs recognized with regard to tax credits for dependent children, post-secondary education and single-parent families.

– *Tax credit for other dependants*

Other dependants : $ 379 tax credit

Starting in the 1988 taxation year, a tax credit for other dependants will be introduced and the value of essential needs recognized for the purpose of calculating this credit will be equivalent to that recognized for the purpose of calculating the tax credit for the second child or subsequent children, i.e. $ 1 895. This tax credit will be worth $ 379 equivalent to $ 1 895 in recognized essential needs converted at the 20 % conversion rate.

Dependants covered by this tax credit will include all individuals related to the taxpayer by blood, marriage or adoption at least 18 years old on the first day of the taxation year, dependent on the taxpayer and usually residing with him or her, and not covered by the tax credit for married persons or for dependent children.

Beginning in the 1988 taxation year, an individual will be entitled to a tax credit of $ 1 056, which reflects essential needs valued at $ 5 280, for a person covered by the tax credit for other dependants, who is dependent because of a physical or mental handicap. This tax credit cannot be claimed with respect to a person covered by the tax credit for married persons or to a person with respect to whom the taxpayer has claimed a tax credit of $ 379 for other dependants.

— ***Additional essential needs of the physically or mentally handicapped***

At present, the seriously or chronically physically or mentally handicapped are entitled to a $ 2 200 deduction, which can also be claimed by an individual with respect to his or her spouse, children or grandchildren suffering from such an infirmity.

Starting in the 1988 taxation year, the value of additional essential needs recognized with regard to the physically or mentally handicapped, now set at $ 2 200, will be converted into a $ 440 tax credit.

Moreover, when the tax credit relates to a dependant, transfer rules will be modified to allow the transfer of the dependant's unclaimed tax credits.

Employment-related expenses

Workers incur employment-related expenses above and beyond their basic needs, related to transportation, clothing and meals, contributions to government pension plans and the unemployment insurance fund, and child care expenses. To ensure neutrality and fairness in the taxation system, individual taxpayers must generally be allowed to deduct from their income expenses incurred to earn such income.

$ 750 deduction for work-related expenses maintained

Under the tax reform, it seems important, in order to be fair to wage earners as well as other taxpayers, to continue recognizing for tax purposes employment-related expenses. Consequently, the general deduction for work-related expenses, equivalent to the lesser of 6 % of employment income and $ 750, will be maintained.

QPP and UI deductions maintained

Similarly, the tax treatment accorded contributions to government pension plans and to unemployment insurance will be maintained, which is in keeping with the tax treatment governing other contributions deducted at source such as union dues and contributions to private retirement plans.

To better reflect the cost of child care expenses, changes will be made in the deduction for these expenses.

— ***Deduction for child care expenses***

At present, a taxpayer entitled to the child care expense deduction may deduct such expenses when calculating his or her income up to the lesser of the following amounts :

- the costs actually incurred;
- the total of $ 3 770 per child under 6 on September 30 of the year in question and $ 1 885 per child under 12 at any time during the year or 12 or over and dependent upon the taxpayer because of a physical or mental handicap;
- 40 %, 80 % or 100 % of the earned income of the spouse with the lower income, depending on whether one, two or more children, respectively, are covered by such expenses.

The spouse with the higher income may claim the deduction; the taxpayer may choose between the child care expense deduction and the availability allowance, according to which one is the most advantageous.

To more accurately take into account child care expenses, and simplify the rules pertaining to them, the rules will be changed starting in the 1988 taxation year.

Simplification

First, the deductibility of child care expenses will not be tied to the availability allowance. Taxpayers will no longer have to choose between the child care expense deduction and the availability allowance.

Greater deduction

Second, the $ 3 770 ceiling with regard to children under 6 on September 30 and the $ 1 885 ceiling for children under 12 at any time during the year will be raised to $ 4 000 and $ 2 000, respectively, while the age of the children will be raised to under 7 at the end of the year in the first instance, and under 14 at any time during the year in the second. The $ 4 000 ceiling will also be extended to child care expenses for children with acute or chronic physical or mental handicaps, regardless of age.

The spouse with the higher income can continue to deduct child care expenses. The ceiling will be raised to 50 % of the earned income of the spouse with the lower income for a single child with respect to whom such expenses are incurred, and the ceiling for two or more children, to 100 % of such income. In addition, the deductibility of such expenses with respect to at-source deductions will still be taken into account.

Other exemptions or deductions

— ***Exemption for members of religious orders***

Starting in the 1988 taxation year, the personal exemption of $ 3 960 for members of religious orders will be converted at the 20 % conversion rate into a $ 792 tax credit.

— ***Age exemption***

$ 440 tax credit

The $ 2 200 age exemption applying to individuals 65 or over at the end of the taxation year will be converted at the 20 % conversion rate into a $ 440 tax credit, beginning in 1988. Furthermore, it will no longer be affected by the taxpayer's employment and business income (see the section dealing with measures for the elderly).

— ***Deduction for retirement income***

$ 200 tax credit

The $ 500 deduction for retirement income granted to retired persons or those who are deemed to be retired will be converted into a retirement income tax credit. This tax credit will also encompass the credit generated by the conversion into a tax credit of the additional deduction for retirement income, which mainly benefited retired or semi-retired persons whose work and business income did not exceed $ 10 000.

Starting with the 1988 taxation year, the rule governing the $ 10 000 in work and business income will be abolished and taxpayers may take advantage of a single tax credit for retirement income of up to $ 200, i.e. $ 1 000 in retirement income converted into a tax credit at the 20 % conversion rate.

— ***Deductions transferred to a spouse***

At present, individual taxpayers can claim a number of exemptions and deductions not used by their spouses, especially the age exemption and the deduction for retirement income for retired persons or persons deemed to be retired.

Rules governing transfers will be modified to allow the transfer of unused spousal tax credits.

— ***Medical expense deduction***

Under the current taxation system, taxpayers may deduct medical expenses which they or their spouses or dependants have incurred when such expenses exceed 3 % of their income.

Tax credit of 20 %

Starting in the 1988 taxation year, the medical expense deduction will be replaced by a tax credit equivalent to 20 % of medical expenses that exceed the lesser of 3 % of the taxpayer's income and $ 1 500.

— ***Deduction for charitable donations***

Simplification

To simplify the administration of the taxation system, the deduction for charitable donations will be maintained as is.

Tax credit for consumption taxes

Since 1986, low and middle-income earners have been entitled to a non-refundable tax credit for consumption taxes, designed to offset the cost of Québec consumption taxes paid with respect to expenses related to essential needs recognized for the purpose of calculating personal income tax. Since this credit is non-refundable, it benefits few taxpayers and generates only modest gains. It also obliges taxpayers to complete a schedule in the tax return.

Since the tax credit for consumption taxes is not tied to taxes actually paid, it has been decided to integrate, starting in the 1988 taxation year, the value of benefits arising from this tax credit into the general taxation system. This integration will also simplify the Québec taxation system.

Assistance for families

The reform of personal income tax, which includes a reduction in tax rates, will significantly lower the taxes of families with children. Such reductions will be all the more substantial as the value of essential needs recognized for children under the taxation system have been appreciably increased and converted into tax credits at the average 20 % conversion rate, instead of the minimum 16 % rate.

In addition, the reform includes a number of other measures which will have a far-reaching effect on the disposable income of families :

- abolition of the recovery of family allowances for the first and the second child;
- an improvement in the tax reduction for low and middle-income families and in the property tax refund;
- harmonization of the APPORT program with the increase in zero tax thresholds;
- establishment of a monthly allowance for young children;
- introduction of allowances for newborn children:
  - $ 500 for the first child and for the second child;
  - $ 3 000 for the third and for each subsequent child;
- additional assistance for day care centres; and
- implementation of a new home ownership program.

Non-recovery of family allowances

Québec family allowances currently paid as a tax credit with regard to first and second children are recovered through income tax payable.

To provide additional financial support to all families and to avoid making payments during the year only to recover them at the year end, starting in the 1988 taxation year the government will cease to recover Québec family allowances. In 1988, families paying tax will retain $ 107.28 when they have one eligible child, and $ 250.32 when they have at least two eligible children.

$ 126 000 000 for families in 1989

Families will receive $ 123 000 000 in 1988 through the non-recovery of family allowances and $ 126 000 000 in 1989.

Improvement in the tax reduction for families and in the property tax refund

— ***Tax reduction for families***

Since January 1, 1988, low and middle-income families with dependent children have been entitled to a tax reduction tailored to their income. The reduction is intended to better reflect the financial position of families with dependent children and ensures better integration of the taxation system and transfer programs.

In 1988, the tax reduction may amount to $ 465 per person, a total tax reduction of $ 930 for a couple with at least one dependent child. Single parents who do not share an independent dwelling with another adult are entitled to an additional $ 300 tax reduction, for a total of $ 765.

By significantly increasing the zero tax threshold of families with children, this tax reduction exempts low-income families that usually receive transfer payments from paying income tax. For example, the zero tax threshold of a couple with one work income and two children between the ages of 6 and 11 is $ 20 822 in fiscal 1988; that of a single-parent family with one child under 6 is $ 19 311.

Increase in zero tax threshold

Under the tax reform, elaborated with a view to improving the financial position of families with children, the zero tax threshold of families is being raised, primarily through changes in the general taxation system. In particular, tax rates will be modified and personal exemptions will be converted into tax credits at the 20 % conversion rate rather than the minimum 16 % tax rate. However, along with these changes in the taxation system, the terms of the tax reduction for families will also be altered. The tax reduction for families will be increased to $ 485 per individual, which means that the total tax reduction for a couple with at least one dependent child will be $ 970. A single parent not sharing his or her dwelling with another adult will receive an additional $ 240. Bearing in mind the overall reform of personal income tax, the zero tax threshold of a couple with one income and two children between the ages of 6 and 11 is being raised to $ 21 636 for fiscal 1988, a 3.9 % increase over the figure which prevailed prior to the reform. That of a single-parent family with one child under 6 is being raised to $ 19 996, an increase of 3.6 % compared with the corresponding pre-reform figure.

This tax reduction for families was decreased by 7 % of the amount by which both spouses' total income exceeded deductions granted with respect to this reduction; from now on, it will be decreased by 4 %. Through this measure, it will be possible to lower the effective marginal tax rates of middle-income families and increase the number of families that benefit from this tax reduction.

These changes will apply beginning in the 1988 taxation year.

— ***Property tax refund***

Under current rules governing the property tax refund, eligible property taxes must be reduced by the value of the taxes already taken into account with regard to essential needs recognized under the taxation system. For the 1988 taxation year, the value of essential needs already taken into account has been set at $ 260 per spouse, and $ 66 per dependent child. Moreover, the rules stipulate that eligible property taxes may not exceed the value of essential needs already taken into account under the taxation system by more than $ 960 for the 1988 taxation year.

To increase the value of the property tax refund, especially for families with children, the value of property taxes already taken into account with regard to the essential needs recognized for children will no longer be considered for the purpose of calculating the refund. In addition, the ceiling on the amount by which property taxes exceed those taken into account with regard to the essential needs of the taxpayer and his or her spouse will be raised to $ 1 000.

These measures will increase the property tax refund, especially for families with children, and make it easier to calculate, beginning in the 1988 taxation year.

Harmonization of the APPORT program with increased zero tax thresholds

Since January 1, 1988, low-income families with dependent children have been eligible for benefits under the APPORT program (assistance program for low-income families), which supplement their work income. In 1988, such families have been able to enrol in the program since the beginning of May; the first monthly payments will be made starting in July. When they file their income tax returns, families will establish the APPORT benefits to which they have been entitled since January 1, 1988, from which they will deduct payments made during the year. Any balance due will be paid at that time.

Under the tax reform, the essential needs of families have been adjusted and the zero tax thresholds have been raised. The thresholds of the APPORT program must be adjusted accordingly to ensure harmony between the two.

Increase in zero tax threshold

For the 1989 tax year, the work income threshold at which benefits under the APPORT program are no longer payable will generally be raised to the threshold at which income becomes taxable. The thresholds governing benefits under the APPORT program will be adjusted for each type of family under the existing program. Income levels on which beneficiaries under the APPORT program cease to receive benefits and the zero tax thresholds of the taxation system will be brought into line. This measure and the improvement in the deduction for child care expenses will substantially increase APPORT benefits.

THRESHOLD ENDING ELIGIBILITY FOR APPORT PROGRAM

	1988	1989
	(In $)	(In $)
Couple with two children, 6-11		
— one work income	20 838	21 985
— two work incomes		
• before deduction for child care expenses	21 320	22 489
• after deduction for child care expenses	25 600	26 782
Couple with one child under 6		
— one work income	19 760	20 475
— two work incomes		
• before deduction for child care expenses	20 190	20 940
• after deduction for child care expenses	24 400	25 235
Single-parent family with one child under 6		
• before deduction for child care expenses	15 570	16 014
• after deduction for child care expenses	19 750	20 200

Note: For households with two work incomes, one spouse earns 60 % of household income and the other, 40 %.

In the wake of the reform of the social aid program, it may be necessary to modify the application of the APPORT program with respect to social aid beneficiaries. Such changes will seek to better harmonize the APPORT program with the amended social aid program and, in particular, to ensure that overly high benefit reduction rates do not prevail among low-income social aid beneficiaries. These changes will be made once all the features of the reform of the social aid program have been determined.

Allowances for children

— Allowances for young children

Under current rules, families receive an availability allowance for children under 6 at the end of the year. The allowance totals $100 for the first child, $ 200 for the second, and $ 500 for each subsequent child under 6. The amount of the availability allowance is determined by the number of children under 6; children 6 or over are not considered for the purpose of calculating this allowance. It is payable annually when taxpayers submit their tax returns. Individuals who have incurred child care expenses with respect to a child under 6 must choose between the availability allowance and the child care expense deduction, depending on which is the most advantageous.

All children taken into account

Since the availability allowance is complex and does not take into account the total number of children under 18, it will be converted into an allowance for young children. The availability allowance for the 1988 tax year, normally to be paid in the spring of 1989, is being abolished and will be replaced by a monthly allowance for young children under the age of 6. The first payment will be made in January 1989. This measure will improve the lot of large families with young children. The amount of the new allowance will depend not only on the number of children under 6 but also on the number of children under 18. For example, families with at least three children under 18, one of whom is under 6, will receive the allowance of $ 500 annually, instead of $ 100 as is now the case.

Simplification

To further benefit families with young children and considerably simplify the tax return and its schedules, the allowance for young children will not be tied to the child care expense deduction an individual taxpayer claims.

Monthly allowances

Moreover, to ensure that government assistance is paid when families need it most, i.e. when the costs of raising children are incurred, the new allowance for young children will be paid monthly, until the child reaches 6, in the form of increased Québec family allowances paid as tax credits.

Starting January 1, 1989, the allowance for children under 6 will depend on the child's rank in the family for the purpose of calculating Québec family allowances. It will be $ 8.34 per month for a first child, $ 16.67 for a second, and $ 41.67 for a third child and for subsequent children.

— ***Allowances for newborn children***

– *$ 500 allowance for the first and for the second child*

Costs incurred in raising children are especially high at the time of their birth, a fact not properly recognized under the current taxation system.

To increase government assistance for first and second newborns, a new allowance will be paid in the form of a refundable $ 500 tax credit upon the birth of first and second children, starting in May 1988.

This new allowance will be payable to the person entitled to receive Québec family allowances for the child in the month following his birth or adoption. In the latter instance, the child must not be over 2 at the time of adoption.

To this end, the child's rank in the family will be established according to current rules governing Québec family allowances.

– *$ 3 000 allowance for the third child and for subsequent children*

The birth of the third child and of subsequent children can cause a financial strain which should be recognized through increased assistance.

Quarterly instalments

To partially offset costs arising from the birth of third and subsequent children, and to increase financial assistance to large families, a new allowance will be granted in the form of a $ 3 000 refundable tax credit, payable in quarterly instalments of $ 375 for a third child and subsequent children under 2.

Families with three or more children in which at least one child is under 2 in May 1988 will also be entitled to these quarterly payments until the child reaches the age of 2.

The quarterly instalment of the allowance will be payable to the person who is entitled to receive Québec family allowances. Moreover, the children's rank in the family will be determined according to current rules governing Québec family allowances.

Individuals will not be able to claim the $ 3 000 allowance payable on a quarterly basis unless they are Québec residents, Canadian citizens or landed immigrants. The same applies to individuals claiming the $ 500 tax credits payable at the birth of each of their first two children.

The $ 375 quarterly instalments of the $ 3 000 allowance will be payable in the first month of each quarter until the child turns two, starting in the month following that in which the child was born or adopted and provided that he or she was with the family of at least three children in the last month of the preceding quarter.

The payment of the allowances for newborn babies will begin as soon as the necessary administrative procedures have been elaborated.

Integration of new and existing allowances

All of the measures related to the family introduced in today's Budget Speech are designed to better offset the cost of raising children, especially in families with three or more siblings, as the following table illustrates.

ILLUSTRATION OF ALLOWANCES FOR NEWBORN CHILDREN AND MONTHLY ALLOWANCES AFTER THE BUDGET SPEECH

Rank of the child	Allowance for newborn children		Monthly allowances	
			Age : 0 to 6 years	Age : 6 to 17 years
First	$ 500	family allowance :	$ 8.94	$ 8.94
		allowance for young children :	$ 8.34	
			$ 17.28	
Second	$ 500	family allowance :	$ 11.92	$ 11.92
		allowance for young children :	$ 16.67	
			$ 28.59	
Third	$ 3 000 (8 quarterly payments of $ 375)	family allowance :	$ 14.90	$ 14.90
		allowance for young children :	$ 41.67	
			$ 56.57	
Fourth and subsequent	$ 3 000 (8 quarterly payments of $ 375)	family allowance :	$ 17.85	$ 17.85
		allowance for young children :	$ 41.67	
			$ 59.52	

Since they are essentially tax credits, Québec family allowances and allowances for young children announced in the 1988-1989 Budget Speech will be recorded as reductions in government revenue. Starting January 1, 1989, the cost of Québec family allowances will no longer be accounted for as a government expenditure.

Additional assistance for day care centres

$ 2 300 000 this year

The Minister for the Status of Women is preparing a policy respecting the development of child care services, to come into effect in 1989-1990. This year, the government has accorded this matter high priority by increasing by more than $ 12 000 000, or 14 %, appropriations allocated to the Office des services de garde à l'enfance. The government acknowledges that some day care centres are facing special problems and will allocate an additional $ 2 300 000 this year for child care services. Supplementary estimates will therefore be tabled in the National Assembly.

The assistance will take the form of a special grant to replace cribs in the wake of a recently adopted regulation, a $ 2 600 grant to day care centres established before 1983 to replace equipment, and a $ 1 000 grant to day care centres to replace educational materials. Part of the additional funds will be earmarked for special projects involving summer day care centres, details of which will be announced by the Minister for the Status of Women.

Home ownership program

Home ownership fosters the harmonious development and financial stability of families. However, a lack of funds is often a major stumbling block to home ownership in families with young children. Indeed, the cost of raising children frequently prevents households from accumulating the necessary capital. For this reason, a new home ownership program designed to provide initial funds for the purchase of a first home is being established.

Guaranteed no-interest loan for 7 years

The three-year program is aimed at families with two or more children under 18; neither spouse may have already owned a principal residence. The assistance will take the form of a government-guaranteed loan, obtained through a financial institution. For the first seven years, the government will assume all interest charges, after which, or in the event the house is sold, the owner will assume responsibility for the interest and principal under the terms of the mortgage loan agreement. The guaranteed loan will be equal to the lesser of $ 7 000 and 10 % of the mortgage loan the purchaser obtains. All new or existing principal homes costing $ 75 000 or less, including the lot, and for which a contract has been signed after midnight on the evening of the Budget Speech, will be eligible for the program.

The Minister responsible for the Société d'habitation du Québec will shortly announce full details of the home ownership program.

It is anticipated that, beginning in the third year of the program, it will cost $ 13 500 000 a year. In 1988-1989, $ 5 000 000 will be added to the contingency fund of the ministère des Finances for this program.

Measures respecting the elderly

Abolition of restrictions on specific deductions covering the semi-retired

Current rules stipulate that individuals 65 or over are entitled to an age exemption up to $ 2 200. They and persons who are deemed to be retired may also claim an additional deduction of $ 500 with respect to retirement income. However, the amount by which such taxpayers' employment and business income exceeds $ 10 000 reduces by the same amount the total of the exemption and the additional deduction.

Improvement and simplification

Under the reform of the personal income tax system, the exemption and the additional deduction will be converted at the 20 % rate into tax credits totalling $ 440 and $ 100, respectively. Moreover, to improve the financial position of the semi-retired, such tax credits will no longer be affected by the taxpayers' income. The rule governing the $ 10 000 in work and business income will be abolished and, as a result, the additional tax credit of $ 100 for retirement income will be integrated into the $ 100 tax credit intended for retired people, regardless of income. Consequently, individuals 65 or over will be entitled to a $ 440 tax credit with respect to age; such individuals and those deemed to be retired will be entitled to a single tax credit of up to $ 200 with regard to retirement income.

In addition to being advantageous for all elderly people who are semi-retired, this measure will simplify their income tax returns by eliminating the additional calculations they had to effect to establish the amounts to which they were entitled.

This measure will apply starting in the 1988 taxation year, when elderly taxpayers will receive $ 15 000 000.

Improvement in the property tax refund

At present, the property tax refund is granted to lighten the tax burden of low and middle-income households. Under current rules, the refund is reduced by the amount of total household income which exceeds the family's zero tax threshold.

In the case of the elderly, the exemption for age of $ 2 200 per spouse is taken into account in calculating the property tax refund. Under the reform of the personal income tax system, the $ 2 200 figure has been maintained and converted for the purpose of income tax into a $ 440 tax credit with respect to age.

The elderly : benefits totalling $ 12 000 000

To further lighten the tax burden of low and middle-income earners 65 or over, the property tax refund will be increased. To this end, the $ 2 200 figure used to establish the tax credit for age is being increased to $ 10 000 per spouse 65 or over, or $ 20 000 per couple, for the purpose of the property tax refund. To simplify the taxation system, the amounts respecting the elderly will also be used to establish the tax reduction for families. This measure will apply to the calculation of the property tax refund and the tax reduction for families in 1988 and subsequent years. Benefits to elderly taxpayers will total $ 12 000 000.

Impact of the reform and measures

On tax thresholds

80 000 households removed from tax rolls

The personal income tax reform will raise the level of income at which individuals become taxable (zero tax threshold). This results, in particular, from the conversion of personal exemptions into tax credits at a rate of 20 % and an improvement in the tax reduction for families with children. This feature of the reform will result in some 80 000 households not having to pay tax in 1989. These are in addition to the 45 000 families removed from the tax rolls as a result of the last Budget Speech. For example, the zero tax threshold for a couple with two children from 6 to 11 and one work income was raised from $ 13 004 in 1987 to $ 20 822 in 1988 as a result of the last Budget Speech. The reform will further increase this threshold to $ 21 636 in 1988 and $ 21 986 in 1989. The zero tax threshold for a single-parent family claiming child care expense deductions will increase from its level of $ 13 842 in 1987 to $ 19 996 in 1988 and $ 20 200 in 1989.

For a childless couple under 65, the zero tax threshold will go up from $ 12 284 in 1987 to $ 13 518 in 1989 and from $ 12 256 to $ 13 099 if both spouses earn employment income. The zero tax threshold for a single person under 65 will increase from $ 7 092 in 1987 to $ 8 438 in 1989 if the taxpayer lives alone and from $ 6 435 to $ 7 310 if he shares a dwelling.

COMPARISON OF INCOMES AT WHICH INCOME TAX IS PAYABLE (QUÉBEC)
(In dollars)

	Taxation year		
		After reform	
	1987	1988	1989
Couple with 2 children, 6-11			
• one work income	13 004	21 636	21 986
• two work incomes			
– before deduction for child care expenses	13 780	23 932	24 134
– after deduction for child care expenses	16 716	28 221	28 428
Couple with 1 child under 6			
• one work income	13 579	20 180	20 487
• two work incomes			
– before deduction for child care expenses	13 917	22 254	22 413
– after deduction for child care expenses	13 917	26 543	26 707
Single-parent family with one child under 6			
• before deduction for child care expenses	10 040	15 814	16 014
• after deduction for child care expenses	13 842	19 996	20 200
Childless couple under 65			
• one work income	12 256	13 369	13 518
• two work incomes	12 256	13 092	13 099
Single person under 65			
• living alone	7 092	8 416	8 438
• sharing a dwelling unit	6 435	7 307	7 310

Note : For couples with two incomes, one spouse earns 60 % of the income and the other, 40 %.

On taxpayers

Gains of $ 605 000 000 in 1988

The entire personal income tax reform and the measures specifically designed for families and the elderly will become fully applicable beginning January 1, 1989. An interim tax table will be applied for taxation year 1988 so that the personal income tax reform and specific measures for families and the elderly will increase households' disposable income for that year by $ 605 000 000.

Gains of $ 1 257 000 000 in 1989

The changes to the tax system as it pertains to individuals will add $ 1 257 000 000 to the disposable income of households in taxation year 1989. The reduction in tax rates and the conversion of exemptions and certain deductions into tax credits will generate the largest benefits for households, amounting to $ 892 000 000, of which $ 434 000 000 will come off the tax burden of families with children. In addition, measures specifically targeting families total $ 338 000 000. These include the elimination of the recovery of family allowances ($ 126 000 000), the improved tax reduction introduced last year and the improved property tax refund ($ 65 000 000), harmonization of the APPORT program with the increase in tax thresholds ($ 15 000 000), the new allowances for newborn babies ($ 71 000 000) and for young children ($ 52 000 000) and the new home ownership program ($ 9 000 000). In all, families with children will gain $ 772 000 000 as a result of the measures announced in the Budget Speech. Finally, specific measures for the elderly will increase their disposable income by $ 27 000 000.

Total of $ 772 000 000 for families in 1989

IMPACT OF THE PERSONAL INCOME TAX REFORM AND OF THE MEASURES TO ASSIST FAMILIES AND THE ELDERLY ON HOUSEHOLD DISPOSABLE INCOME 1988 AND 1989 TAXATION YEARS
(In millions of dollars)

	1988	1989
Personal income tax reform		
New income tax table, covering essential needs and incidental measures[1]		
– families with children	133	434
– other households	172	458
Subtotal	**305**	**892**
Specific measures for families		
Abolition of the recovery of family allowances	123	126
Improvement in income tax reduction for families and property tax refund	95	65
Harmonization of APPORT with tax threshold increases		15
Monthly allowances for young children[2]	3	52
Allowance for newborn children		
– birth of first and second child	23	33
– birth in large families	26	38
Home ownership program	3	9
Subtotal	**273**	**338**
Specific measures for the elderly		
Abolition of restrictions on specific deductions for the semi-retired elderly	15	15
Improvement in property tax refund	12	12
Subtotal	**27**	**27**
TOTAL IMPACT ON DISPOSABLE INCOME	**605**	**1 257**

1 Incidental measures include interaction between fiscal measures and abolition of the tax credit for consumption taxes.

2 Including the elimination of the link between the availability allowance and the deduction for child care expenses, the monthly payment of allowances for children under 6 and availability allowance transition measures. The availability allowance is recorded during the calendar year in which the amounts are received.

The tax burden on all types of households will decline by a significant amount, estimated at about 11 % of their pre-reform income tax. The reduction is about 7 % for single persons and childless couples and some 15 % for families with children.

61 % of gains for families with children

Families with children will gain the most from the personal income tax reform and the other measures announced in the Budget Speech. In 1989, the gain families with children will enjoy accounts for 61 % of the total impact of the reform, while their share of taxes prior to the reform was estimated at 44 %. The average gain for a family with children is estimated at $ 702 for taxation year 1989, over three times the average gain of $ 216 for other households.

GAIN UNDER THE REFORM BY TYPE OF HOUSEHOLD

Type of household	Number of households	Estimated portion of 1988 income tax before reform (%)	Gain under the reform in 1989 (in millions of dollars)	Distribution of gains among households (%)
Single people	1 440 000	25	200	16
Childless couples	458 000	23	199	16
Families with children	1 099 000	44	772	61
Elderly people	350 000	8	86	7
Total impact	**3 347 000**	**100**	**1 257**	**100**

On the tax burden of certain typical households under 65

As mentioned above, families with children will enjoy significant gains at every income level. For example, a couple with two children and employment income of $ 10 000 will pay no income tax and will benefit from the other measures announced, namely, the harmonization of the APPORT program with the increase in zero tax thresholds ($ 677), and the improved property tax refund ($ 53), for a total gain of $ 730. The income tax of a family with an income of $ 22 000 will be reduced by $ 322 to almost zero, while its property tax refund will rise by $ 73, for a total gain of $ 395. At the $ 40 000 income level, the tax reduction will be $ 659, or 12 % of tax payable, and the total gain will be $ 704.

The tax reduction for a childless couple with two employment incomes amounts to $ 236 or 20.9 % of income tax payable at $ 20 000 of income. The reduction at the $ 40 000 income level is $ 258, or 5.3 % of income tax payable.

Income tax will be completely eliminated for a single person under 65 living alone and earning an income of $ 8 000. This stems from the higher zero tax threshold as a result of the conversion of exemptions into tax credits at a rate of 20 %. The tax reduction will amount to $ 181 or 5.4 % of income tax paid at an income of $ 25 000, and $ 404 or 5.8 % of income tax paid at the $ 40 000 level.

INCOME TAX REDUCTION AND TOTAL GAIN UNDER THE REFORM
1989 TAXATION YEAR
(In dollars)

Household work income	Couple with two children under 12 one work income				Childless couple two work incomes[2]		Single person under 65 living alone	
	Tax reduction		Other measures[1]	Total gain	Tax reduction		Tax reduction	
8 000	—	—	730	730	—	—	93	100.0 %
10 000	—	—	730	730	—	—	149	35.9 %
15 000	—	—	642	642	83	23.2 %	101	8.1 %
20 000	—	—	642	642	236	20.9 %	98	4.4 %
22 000	322	99.0 %	73	395	206	14.3 %	123	4.6 %
25 000	450	38.0 %	75	525	187	9.5 %	181	5.4 %
30 000	656	24.3 %	75	731	162	5.6 %	225	5.0 %
35 000	796	19.1 %	75	871	190	4.9 %	293	5.1 %
40 000	659	12.2 %	45	704	258	5.3 %	404	5.8 %
50 000	599	7.6 %	—	599	345	4.8 %	652	6.9 %
75 000	1 116	7.7 %	—	1 116	785	6.0 %	1 272	7.9 %

Note : A blank indicates that no income tax is payable.

1 Other measures include harmonization of APPORT with zero tax threshold increases and the improvement in the property tax refund.

2 One spouse earns 60 % of the work income and the other, 40 %.

On the tax burden of the elderly

A retired taxpayer 65 or over will enjoy a tax reduction of $ 276 at a pension and investment income level of $ 8 000 and of $ 367 at an income of $ 40 000. Tax reductions for taxpayers whose incomes fall between $ 15 000 and $ 30 000 will range from $ 228 to $ 252 resulting notably from the improvement in the property tax refund.

A single person 65 or over earning employment income will enjoy a tax reduction of $ 248 or 100 % of tax paid at an income level of $ 8 000; at $ 15 000 of income, the reduction will reach $ 740 or 37.5 % of the tax payable. The reduction in this taxpayer's tax burden results from lower tax rates and the improved property tax refund, but especially from the elimination of the restrictions on the specific deductions for semi-retired elderly persons. This last measure will be of benefit to taxpayers 65 or over with work income in excess of $ 10 000.

GAIN UNDER THE REFORM FOR A SINGLE PERSON 65 OR OVER
1989 TAXATION YEAR
(in dollars)

	Retired taxpayer				Taxpayer on the labour market			
Private income [1]	Tax reduction	Increase in PTR	Total gain [2]		Tax reduction	Increase in PTR	Total gain [2]	
8 000	192	84	276	100.0 %	169	79	248	100.0 %
10 000	145	112	257	53.6 %	131	97	228	44.4 %
15 000	58	170	228	15.3 %	533	207	740	37.5 %
20 000	78	174	252	9.4 %	616	218	834	26.2 %
25 000	100	146	246	6.3 %	660	170	830	18.9 %
30 000	162	46	208	4.1 %	724	71	795	14.2 %
35 000	256	—	256	4.0 %	835	—	835	12.2 %
40 000	367	—	367	4.8 %	946	—	946	11.6 %
50 000	603	—	603	5.9 %	1 214	—	1 214	11.3 %
75 000	1 229	—	1 229	7.3 %	1 858	—	1 858	10.7 %

1 Made up of investment and pension income in the case of a retired taxpayer, and of wages in that of a taxpayer on the labour market. Taxpayer also receives federal old age security transfers.

2 The percentage gain is expressed as a function of income tax minus property tax refund.

On families

— ***Tax reduction for families and increase in their transfers (APPORT)***

The tax reform's emphasis on families is consistent with the initiatives introduced in the 1987-1988 Budget Speech, which increased families' disposable income by $ 188 000 000 in 1988. A parental wage assistance program (APPORT), geared to low-income families with dependent children, was announced at that time. The program provides financial assistance related to the parents' participation in the labour market. The 1987-1988 Budget also introduced a tax reduction for families with children, thus eliminating the tax payable by 45 000 families and reducing the tax liability of 300 000 others.

These measures have appreciably improved the financial situation of all families and have helped increase the incentive to work for low-income families. Together with the measures announced in this Budget Speech, they will mean an increase of more than $ 900 000 000 in disposable income for families for 1989. For example, for a family earning $ 25 000 and with two children, these measures will mean savings of $ 1 417 on an annual basis in 1989, or a boost of about $ 120 to its monthly budget. At an income level of $ 40 000, the family will still enjoy a reduction in its annual tax burden of $ 704.

GAIN UNDER THE REFORM FOR A COUPLE WITH TWO CHILDREN, 6-11 ONE WORK INCOME 1989 TAXATION YEAR (In dollars)

Household work income	Transfers and Québec income tax before the 1987-1988 Budget	Gain under the 1987-1988 Budget			Gain under the reform				
		APPORT[1]	Tax reduction and PTR	Gain under the 1987-1988 Budget	Tax reduction	Other measures[2] — APPORT	— PTR	Gain under the reform	Total gain
8 000	5 593	478	—	478	—	677	53	730	1 208
10 000	4 268	716	—	716	—	677	53	730	1 446
15 000	2 030	565	66	631	—	589	53	642	1 273
20 000	– 511	151	1 047	1 198	—	589	53	642	1 840
22 000	– 1 007	—	1 152	1 152	322	—	73	395	1 547
25 000	– 1 640	—	892	892	450	—	75	525	1 417
30 000	– 2 752	—	429	429	656	—	75	731	1 160
35 000	– 3 918	—	41	41	796	—	75	871	912
40 000	– 5 130	—	—	—	659	—	45	704	704
50 000	– 7 635	—	—	—	599	—	—	599	599
75 000	– 14 139	—	—	—	1 116	—	—	1 116	1 116

Note : A negative figure indicates that the amount of the transfers is less than the amount of the tax.

1 Effects of replacing SUPRET by APPORT.

2 Other measures include an increase in the property tax refund (PTR) and harmonization of APPORT with zero tax threshold increases.

— *Financial support for families*

The personal income tax reform and the additional measures for families will improve the Québec government's financial support for families with children, regardless of how many. In 1989, support for a couple with one child and earning $ 12 000 will amount to $ 3 501. A large part of this support stems from benefits under the parental wage assistance program (APPORT). This financial support decreases with income. Considering the financial support families receive from the federal government as well, total assistance for the first child will reach $ 4 337 at $ 12 000 of income, $ 2 089 at $ 25 000 and $ 956 at $ 40 000.

Additional assistance for families with young children

The allowances for newborn babies and young children will increase financial support for families with three children, more specifically those with a child under two. For this family, an amount of $ 1 500 per year for two years will be paid as a quarterly allowance for the third child's birth, as well as $ 500 per year as an allowance for young children. In all, the person supporting the child will receive additional assistance of $ 2 000 per year to cover, for a period of two years, a significant portion of the cost related to the birth of the third child. The financial support for such a family will amount to $7 035 in 1989 at an income level of $ 12 000, $ 4 709 at $ 20 000 and $ 3 796 at $ 40 000. Total support for this family, including federal assistance, will reach $ 10 689 at $ 12 000 of income, $ 8 363 at $ 25 000 and $ 6 468 at $ 40 000.

FINANCIAL SUPPORT FROM QUÉBEC AND OTTAWA FOR CHILDREN 1989 TAXATION YEAR (in dollars)

Work income	12 000	15 000	20 000	25 000	30 000	40 000
Support from Québec						
– one child	3 501	2 578	1 568	1 297	1 104	705
– two children	4 801	3 533	2 522	1 999	1 806	1 407
– three children	7 035	5 719	4 709	4 388	4 195	3 796
Support from Ottawa						
– one child	836	836	836	792	522	251
– two children	1 978	1 978	1 978	1 915	1 616	1 116
– three children	3 654	3 654	3 654	3 544	3 172	2 672
Total support						
– one child	4 337	3 414	2 404	2 089	1 626	956
– two children	6 779	5 511	4 500	3 914	3 422	2 523
– three children	10 689	9 373	8 363	7 932	7 367	6 468

Note 1 : In this table, the couple has one work income and no child care expenses. The first child is 7. In the case of the couple with two children, the children are 2 and 7. The couple with three children has a newborn child, a child of 2 and one of 7.

Note 2 : Québec's financial support consists of APPORT benefits, tax reductions, family allowances and all the new allowances. Federal support comes from income tax, family allowances and the refundable tax credit.

Note 3 : Where applicable, the 1989 structure takes the anticipated Consumer Price Index into account.

Since 1985, Québec's financial support for families has increased considerably. At $ 25 000 of income, Québec's financial support for the first child was $ 95 in 1985 and will rise to $ 1 297 in 1989. Financial support for a family with two children will increase from $ 521 in 1985 to $ 1 999 in 1989. Finally, a family with three children will enjoy an increase in assistance of slightly more than $ 3 500, from $ 880 in 1985 to $ 4 388 in 1989.

FINANCIAL SUPPORT FROM QUÉBEC AND OTTAWA FOR CHILDREN FOR A COUPLE WITH A $ 25 000 WORK INCOME (in dollars)

	1985	1987	1989
Support from Québec			
– one child	95	371	1 297
– two children	521	896	1 999
– three children	880	1 379	4 388
Support from Ottawa			
– one child	690	788	792
– two children	1 491	1 660	1 915
– three children	2 719	2 943	3 544
Total support			
– one child	785	1 159	2 089
– two children	2 012	2 556	3 914
– three children	3 599	4 322	7 932

Note 1 : In this table, the couple has one work income and no child care expenses.

Note 2 : Québec's financial support consists of tax reductions, family allowances and all the new allowances. Federal support comes from income tax, family allowances and the refundable tax credit.

Note 3 : Where applicable, the 1989 structure takes the anticipated Consumer Price Index into account.

On tax competitiveness

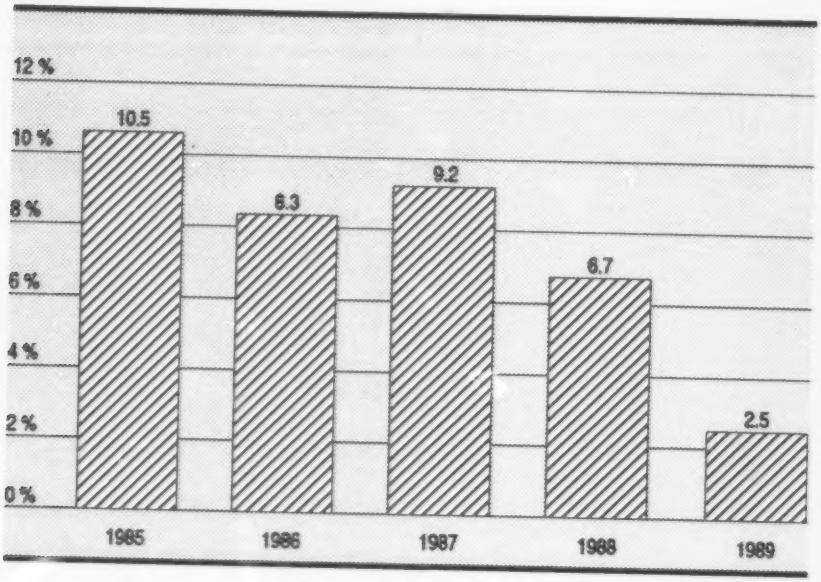
— *Change in the personal tax burden in Québec compared to Ontario*

One way of comparing the relative tax burden of the tax structures in Ontario and Québec is to apply the tax structures of each province to Québec's tax bases. Using this procedure, it is possible to quantify the differential between the tax burden borne by taxpayers in Québec under Québec's tax structure and the burden they would bear under Ontario's structure. The tax burden includes all taxes levied by the provincial and local governments.

Reduction in tax burden differential

The result of this exercise indicates that Québec taxpayers have a heavier tax burden than Ontario taxpayers. However, the tax reform will substantially reduce this supplementary burden. In 1988, the difference in favour of Ontario will be 6.7 % compared to 9.2 % in 1987 and 10.5 % in 1985. In 1989, it will drop even more, to 2.5 %.

PERSONAL SUPPLEMENTARY TAX BURDEN
COMPARISON BETWEEN QUÉBEC AND ONTARIO
1985 to 1989
(as a percentage)

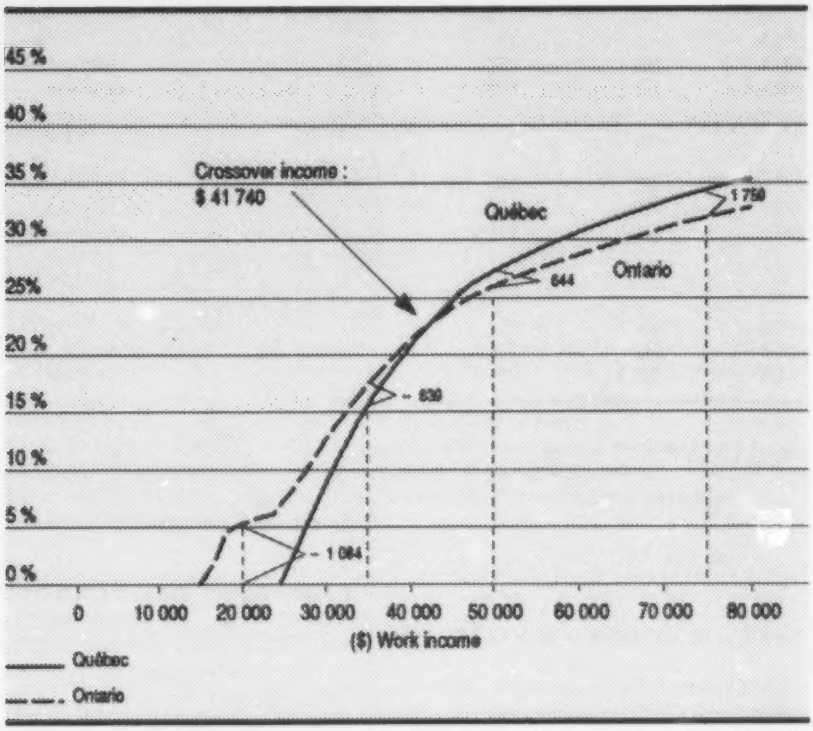


The following two charts show the differentials in personal tax burdens after the reform, in 1989. The couple with two children between 6 and 11 pays less income tax than its Ontario counterpart until employment income reaches $ 41 740. However, beyond this income level, the Québec couple pays a higher contribution and the differential compared to Ontario widens as employment income increases. At $ 50 000, the additional income tax paid in Québec comes to $ 644, and at $ 75 000, $ 1 759.

For the single person, the Ontario tax structure becomes advantageous at a lower level of employment income, namely $ 15 520. At $ 35 000, a single person pays $ 1 379 more tax under Québec's tax structure. At the $ 50 000 and $ 75 000 levels, this differential reaches $ 2 158 and $ 3 286 respectively.

COMPARISON BETWEEN QUÉBEC AND ONTARIO
FEDERAL AND PROVINCIAL INCOME TAX BURDEN [1]
AFTER TAX REFORM

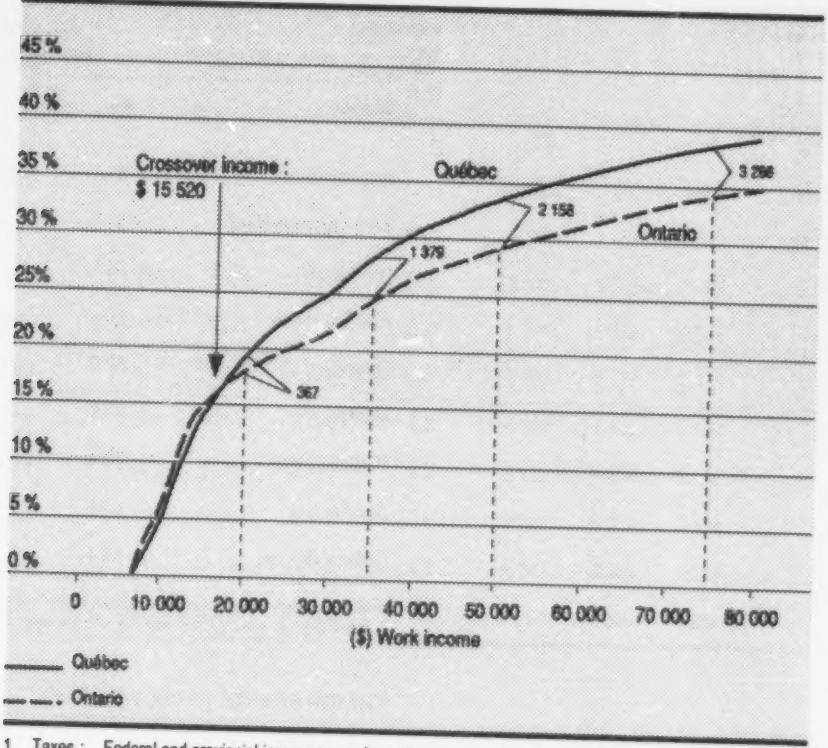
COUPLE WITH TWO CHILDREN, 6-11
1989 TAXATION YEAR
AVERAGE RATE (as a percentage of work income)



1 Taxes : Federal and provincial income taxes, less allowances and tax credits, plus contribution to the Ontario Health Insurance Plan (OHIP).

COMPARISON BETWEEN QUÉBEC AND ONTARIO FEDERAL AND PROVINCIAL INCOME TAX BURDEN [1] AFTER TAX REFORM

SINGLE PERSON
1989 TAXATION YEAR
AVERAGE RATE (as a percentage of work income)



1 Taxes : Federal and provincial income taxes, less allowances and tax credits, plus contribution to the Ontario Health Insurance Plan (OHIP).

— *Change in maximum marginal rates*

Reduction in differential between Québec and all other provinces

As the following table shows, an interprovincial comparison of maximum marginal rates indicates that by 1989 Québec will have reduced the gaps in this regard with all provinces. However, the maximum marginal rate will still be higher than in any other province except Manitoba.

Compared to Ontario, Québec's main trading partner, the difference in maximum marginal rates will fall to 2.6 percentage points in 1989 compared to 10.1 points in 1985. In 1989, the differential will return almost to its level in 1976, that is, 2.4 percentage points.

INTERPROVINCIAL COMPARISON OF MAXIMUM MARGINAL INCOME TAX RATES UNDER FEDERAL AND PROVINCIAL SYSTEMS
(percentage of taxable income)

			Transition year		Completed reform	
	1987	Differential with Québec	1988	Differential with Québec	1989	Differential with Québec
Québec	62.1	—	51.1	—	49.1	—
Newfoundland	56.1	6.0	47.3	3.8	47.3	1.8
Prince Edward Island	53.6	8.5	47.7	3.4	48.1	1.0
Nova Scotia	54.9	7.2	46.3	4.8	46.3	2.8
New Brunswick	55.4	6.7	47.3	3.8	47.3	1.8
Ontario	52.0	10.1	46.1	5.0	46.5	2.6
Manitoba[1]	57.7	4.4	49.5	1.6	49.5	−0.4
Saskatchewan	55.4	6.7	48.1	3.0	48.1	1.0
Alberta	50.5	11.6	44.9	6.2	44.9	4.2
British Columbia	53.4	8.7	44.8	6.3	44.8	4.3

Note : According to information available at the beginning of May 1988.
1 Bringing the rate structure into line with the federal reform.

On the change in tax payable

The changes made in the personal income tax system since 1987 have reduced income tax payable at all income levels. The table of changes in tax payable in Québec shows that effort has been concentrated on reducing the tax burden of low and middle-income families. For instance, a couple with two children and earning $ 20 000 will pay no tax in 1989 whereas, in 1987, it paid $ 1 081. At the $ 40 000 income level, tax payable will decline from $ 5 569 in 1987 to $ 4 732 in 1989, a drop of 15 % in the tax bill.

Income tax payable by childless couples with incomes of $ 15 000 and $ 40 000 will be 22.7 % and 6.8 % lower respectively in 1989 compared to 1987. At these income levels, income tax payable by single persons will decline by 13.5 % and 7.6 % respectively.

CHANGE IN INCOME TAX PAYABLE IN QUÉBEC
1987 TO 1989
(in dollars)

	Couple with two children under 12 one work income				Childless couple two work incomes[1]				Single person under 65 living alone			
Household work income	1987	1988	1989	Tax reduction from 1987 to 1989 in %	1987	1988	1989	Tax reduction from 1987 to 1989 in %	1987	1988	1989	Tax reduction from 1987 to 1989 in %
8 000	—	—	—	—	—	—	—	—	136	—	—	100.0
10 000	—	—	—	—	—	—	—	—	455	277	266	41.5
15 000	159	—	—	100.0	357	282	276	22.7	1 324	1 181	1 145	13.5
20 000	1 081	—	—	100.0	1 155	915	892	22.8	2 331	2 202	2 142	8.1
22 000	1 501	75	3	99.8	1 481	1 272	1 241	16.2	2 759	2 613	2 543	7.8
25 000	2 086	830	734	64.8	1 995	1 818	1 772	11.2	3 428	3 237	3 149	8.1
30 000	3 177	2 217	2 038	35.9	2 931	2 778	2 707	7.6	4 609	4 429	4 260	7.6
35 000	4 356	3 642	3 382	22.4	3 929	3 762	3 666	6.7	5 832	5 654	5 404	7.3
40 000	5 569	5 067	4 732	15.0	4 980	4 764	4 643	6.8	7 093	6 879	6 554	7.6
50 000	8 082	7 780	7 297	9.7	7 215	6 991	6 762	6.3	9 647	9 329	8 854	8.2
75 000	14 593	14 260	13 284	9.0	13 255	12 893	12 324	7.0	16 252	15 800	14 834	8.7

Note: A blank (—) indicates that no income tax is payable.

1 One spouse earns 60 % of the work income and the other, 40 %.

On the government's financial framework

The personal income tax reform and the measures for families and the elderly will cost the government $ 851 000 000 in 1988-1989, $ 1 035 000 000 in 1989-1990 and $ 1 367 000 000 in 1990-1991.

The full effect of the reform will be reflected in the government's financial framework by 1989-1990, since deductions at source will be reduced beginning in January 1989. Furthermore, the accelerated tax refund program set up in 1988 will be enhanced to ensure that taxpayers reap the benefits of the 1988 tax reduction in early 1989. A provision of $ 550 000 000 has been set aside in the 1988-1989 financial framework for this purpose.

The lower tax rates and the conversion of exemptions into tax credits at a rate of 20 % will cost the government $ 1 088 000 000 in 1989-1990. These are the most costly elements of the personal income tax reform.

The measures specifically geared to families will cost $ 468 000 000 in 1989-1990. This accounts for almost all the remaining impact of the reform. This amount is made up notably of $ 217 000 000 arising from the elimination of the recovery of family allowances, $ 118 000 000 from new measures for families, and $ 113 000 000 from the improved tax reduction and property tax refund for families. Finally, measures targeted at the elderly will cost the government $ 29 000 000 in 1989-1990.

FINANCIAL IMPACT OF PERSONAL INCOME TAX REFORM AND OF THE MEASURES TO ASSIST FAMILIES AND THE ELDERLY
(In millions of dollars)

	1988-1989	1989-1990	1990-1991
Personal income tax reform			
New income tax table, covering essential needs and incidental measures	– 173	– 1 088	– 994
Specific measures for families			
Abolition of the recovery of family allowances	– 20	– 217	– 129
Improvement in tax reduction for families and property tax refund	– 4	– 113	– 65
Harmonization of APPORT with tax threshold increases	– 2	– 11	– 16
Monthly allowances for young children	– 29	– 47	– 49
Allowance for newborn children			
– birth of first and second child	– 30	– 34	– 35
– birth in large families	– 36	– 37	– 38
Home ownership program	– 5	– 9	– 14
Additional assistance for day care centres	– 2		
SUBTOTAL	– 128	– 468	– 346
Specific measures for the elderly			
Abolition of restrictions on specific deductions for the semi-retired elderly		– 16	– 15
Improvement in property tax refund		– 13	– 12
SUBTOTAL		– 29	– 27
Accelerated refund of the 1988 tax reduction to taxpayers	– 550	550	
TOTAL IMPACT	**– 851**	**– 1 035**	**– 1 367**

Note : A negative figure indicates a cost to the government.

GAIN UNDER THE REFORM
COUPLE WITH ONE CHILD, 6-11
1989 TAXATION YEAR
(In dollars)

Household work income	One work income					Two work incomes				
	Tax before reform	Gain under the reform				Tax before reform	Gain under the reform			
		Tax reduction		Other measures	Total gain		Tax reduction		Other measures	Total gain
8 000	—	—	—	422	422	—	—	—	445	445
10 000	—	—	—	384	384	—	—	—	450	450
15 000	—	—	—	371	371	—	—	—	403	403
20 000	—	—	—	221	221	—	—	—	413	413
22 000	528	166	31.5 %	40	206	—	—	—	418	418
25 000	1 406	319	22.7 %	40	359	505	410	81.2 %	42	452
30 000	2 877	485	16.8 %	40	525	1 807	626	34.6 %	42	668
35 000	4 295	560	13.0 %	39	599	3 078	748	24.3 %	40	790
40 000	5 507	422	7.7 %	2	424	4 176	678	16.2 %	10	688
50 000	8 023	433	5.4 %	—	433	6 334	421	6.6 %	—	421
75 000	14 537	965	6.6 %	—	965	12 302	826	6.7 %	—	826

Note 1 : Other measures include increases in property tax refund and harmonization of APPORT program with tax threshold increases.

Note 2 : Where both spouses work, one earns 60 % of the household income and the other, 40 %.

GAIN UNDER THE REFORM
COUPLE WITH TWO CHILDREN, 6-11
1989 TAXATION YEAR
(in dollars)

Household work income	One work income				Two work incomes			
		Gain under the reform				Gain under the reform		
	Tax before reform	Tax reduction		Other measures	Total gain	Tax before reform	Tax reduction	Other measures	Total gain
8 000	—	—	—	730	730	—	—	—	774	774
10 000	—	—	—	730	730	—	—	—	785	785
15 000	—	—	—	642	642	—	—	—	705	705
20 000	—	—	—	642	642	—	—	—	727	727
22 000	325	322	99.0 %	73	395	—	—	—	735	735
25 000	1 184	450	38.0 %	75	525	—	—	—	738	738
30 000	2 694	656	24.3 %	75	731	1 082	745	68.8 %	79	824
35 000	4 178	796	19.1 %	75	871	2 413	944	39.1 %	79	1 023
40 000	5 391	659	12.2 %	45	704	3 677	1 040	28.3 %	62	1 102
50 000	7 896	599	7.6 %	—	599	5 787	714	12.3 %	—	714
75 000	14 399	1 116	7.7 %	—	1 116	11 699	976	8.3 %	—	976

Note 1 : Other measures include increases in property tax refund and harmonization of APPORT program with tax threshold increases.
Note 2 : Where both spouses work, one earns 60 % of the household income and the other, 40 %.

GAIN UNDER THE REFORM
COUPLE WITH THREE CHILDREN, 6-11
1989 TAXATION YEAR
(in dollars)

	One work income					Two work incomes				
		Gain under the reform					Gain under the reform			
Household work income	Tax before reform	Tax reduction		Other measures	Total gain	Tax before reform	Tax reduction		Other measures	Total gain
8 000	—	—	—	756	756	—	—	—	823	823
10 000	—	—	—	756	756	—	—	—	840	840
15 000	—	—	—	668	668	—	—	—	773	773
20 000	—	—	—	668	668	—	—	—	796	796
22 000	139	139	100.0 %	89	228	—	—	—	808	808
25 000	991	460	46.4 %	110	570	—	—	—	813	813
30 000	2 519	682	27.1 %	110	792	389	389	100.0 %	116	505
35 000	4 041	861	21.3 %	110	971	1 712	964	56.3 %	116	1 080
40 000	5 261	732	13.9 %	67	799	3 045	1 129	37.1 %	105	1 234
50 000	7 761	628	8.1 %	—	628	5 232	901	17.2 %	—	901
75 000	14 259	1 130	7.9 %	—	1 130	11 089	990	8.9 %	—	990

Note 1 : Other measures include increases in property tax refund and harmonization of APPORT program with tax threshold increases.
Note 2 : Where both spouses work, one earns 60 % of the household income and the other, 40 %.

GAIN UNDER THE REFORM
COUPLE WITH TWO CHILDREN, 6-11
1989 TAXATION YEAR
(In dollars)

	One work income				Two work incomes			
		Gain under the reform				Gain under the reform		
Household work income	Tax before reform	Tax reduction		Other measures	Total gain	Tax before reform	Tax reduction		Other measures	Total gain
8 000	—	—	—	730	730	—	—	—	774	774
10 000	—	—	—	730	730	—	—	—	785	785
15 000	—	—	—	642	642	—	—	—	705	705
20 000	—	—	—	642	642	—	—	—	727	727
22 000	325	322	99.0 %	73	395	—	—	—	735	735
25 000	1 184	450	38.0 %	75	525	—	—	—	738	738
30 000	2 694	656	24.3 %	75	731	1 082	745	68.8 %	79	824
35 000	4 178	796	19.1 %	75	871	2 413	944	39.1 %	79	1 023
40 000	5 391	659	12.2 %	45	704	3 677	1 040	28.3 %	62	1 102
50 000	7 896	599	7.6 %	—	599	5 787	714	12.3 %	—	714
75 000	14 399	1 116	7.7 %	—	1 116	11 699	976	8.3 %	—	976

Note 1 : Other measures include increases in property tax refund and harmonization of APPORT program with tax threshold increases.
Note 2 : Where both spouses work, one earns 60 % of the household income and the other, 40 %.

GAIN UNDER THE REFORM
COUPLE WITH THREE CHILDREN, 6-11
1989 TAXATION YEAR
(In dollars)

	One work income					Two work incomes				
		Gain under the reform					Gain under the reform			
Household work income	Tax before reform	Tax reduction		Other measures	Total gain	Tax before reform	Tax reduction		Other measures	Total gain
8 000	—	—	—	756	756	—	—	—	823	823
10 000	—	—	—	756	756	—	—	—	840	840
15 000	—	—	—	668	668	—	—	—	773	773
20 000	—	—	—	668	668	—	—	—	796	796
22 000	139	139	100.0 %	89	228	—	—	—	808	808
25 000	991	460	46.4 %	110	570	—	—	—	813	813
30 000	2 519	682	27.1 %	110	792	389	389	100.0 %	116	505
35 000	4 041	861	21.3 %	110	971	1 712	964	56.3 %	116	1 080
40 000	5 261	732	13.9 %	67	799	3 045	1 129	37.1 %	105	1 234
50 000	7 761	628	8.1 %	—	628	5 232	901	17.2 %	—	901
75 000	14 259	1 130	7.9 %	—	1 130	11 089	990	8.9 %	—	990

Note 1 : Other measures include increases in property tax refund and harmonization of APPORT program with tax threshold increases.
Note 2 : Where both spouses work, one earns 60 % of the household income and the other, 40 %.

GAIN UNDER THE REFORM
SINGLE-PARENT FAMILY NOT SHARING A DWELLING UNIT
1989 TAXATION YEAR
(in dollars)

Household work income	One child, 6-11						One child under 6					
	Tax before reform	Gain under the reform					Tax before reform	Gain under the reform				
		Tax reduction		Other measures		Total gain		Tax reduction		APPORT	Other measures	Total gain
				APPORT	PTR							
8 000	—	—	—	331	26	357	—	—	—	275	126	401
10 000	—	—	—	293	26	319	—	—	—	402	126	528
15 000	—	—	—	288	26	314	—	—	—	336	126	462
20 000	734	282	38.4 %	—	42	324	188	188	100.0 %	80	140	408
22 000	1 291	361	28.0 %	—	42	403	742	312	42.0 %	—	144	456
25 000	2 102	455	21.6 %	—	42	497	1 565	418	26.7 %	—	144	562
30 000	3 455	535	15.5 %	—	42	577	2 972	592	19.9 %	—	144	736
35 000	4 645	382	8.2 %	—	42	424	4 188	465	11.1 %	—	144	609
40 000	5 866	383	6.5 %	—	—	383	5 401	378	7.0 %	—	112	490
50 000	8 388	605	7.2 %	—	—	605	7 912	589	7.4 %	—	100	689
75 000	14 921	1 176	7.9 %	—	—	1 176	14 422	1 156	8.0 %	—	100	1 256

Note: In "Gain under the reform", the effect on APPORT is due to the harmonization of the APPORT program with tax threshold increases. The other measures concern increases in property tax refunds (PTR) and the replacement of the availability allowance by the new allowance for young children.

TAX REDUCTION UNDER THE REFORM
1989 TAXATION YEAR
(in dollars)

	Childless couple one work income			Childless couple two work incomes[1]		
Household work income	Tax before reform	Tax reduction		Tax before reform	Tax reduction	
8 000	—	—	—	—	—	—
10 000	—	—	—	—	—	—
15 000	361	92	25.4 %	359	83	23.2 %
20 000	1 308	43	3.3 %	1 129	236	20.9 %
25 000	2 310	38	1.6 %	1 958	187	9.5 %
30 000	3 417	33	1.0 %	2 868	162	5.6 %
35 000	4 610	81	1.8 %	3 856	190	4.9 %
40 000	5 833	155	2.7 %	4 901	258	5.3 %
50 000	8 355	377	4.5 %	7 106	345	4.8 %
75 000	14 895	936	6.3 %	13 110	785	6.0 %

Note: A blank (—) indicates that no income tax is payable.

1 One spouse earns 60 % of the household income and the other, 40 %.

TAX REDUCTION UNDER THE REFORM
1989 TAXATION YEAR
(In dollars)

	Single person under 65 living alone			Single person under 65 sharing a dwelling unit		
Household work income	Tax before reform	Tax reduction		Tax before reform	Tax reduction	
8 000	93	93	100.0 %	236	130	55.0 %
10 000	415	149	35.9 %	550	104	18.9 %
15 000	1 246	101	8.1 %	1 408	82	5.9 %
20 000	2 240	98	4.4 %	2 422	101	4.2 %
25 000	3 330	181	5.4 %	3 521	192	5.5 %
30 000	4 485	225	5.0 %	4 684	244	5.2 %
35 000	5 697	293	5.1 %	5 904	319	5.4 %
40 000	6 958	404	5.8 %	7 165	430	6.0 %
50 000	9 507	652	6.9 %	9 722	687	7.1 %
75 000	16 106	1 272	7.9 %	16 329	1 314	8.0 %

Note : A blank (—) indicates that no income tax is payable.

CHANGE IN INCOME TAX PAYABLE IN QUÉBEC
1987 TO 1989
(In dollars)

Household work income	Couple with one child, 6-11, one work income				Couple with one child, 6-11, two work incomes[1]			
	1987	1988	1989	Tax reduction from 1987 to 1989 in %	1987	1988	1989	Tax reduction from 1987 to 1989 in %
8 000	—	—	—	—	—	—	—	—
10 000	—	—	—	—	—	—	—	—
15 000	233	—	—	100.0	—	—	—	—
20 000	1 197	—	—	100.0	630	—	—	100.0
22 000	1 573	434	362	77.0	953	—	—	100.0
25 000	2 174	1 179	1 087	50.0	1 429	132	95	93.4
30 000	3 286	2 566	2 392	27.2	2 308	1 243	1 181	48.8
35 000	4 475	3 991	3 735	16.5	3 262	2 417	2 330	28.6
40 000	5 689	5 416	5 085	10.6	4 276	3 611	3 498	18.2
50 000	8 211	8 068	7 590	7.6	6 468	6 116	5 913	8.6
75 000	14 733	14 543	13 573	7.9	12 474	12 018	11 476	8.0

Note : A blank (—) indicates that no income tax is payable.

1 One spouse earns 60 % of the household income and the other, 40 %.

CHANGE IN INCOME TAX PAYABLE IN QUÉBEC
1987 TO 1989
(in dollars)

	Couple with two children, 6-11 one work income				Couple with two children, 6-11 two work incomes[1]			
Household work income	1987	1988	1989	Tax reduction from 1987 to 1989 in %	1987	1988	1989	Tax reduction from 1987 to 1989 in %
8 000	—	—	—	—	—	—	—	—
10 000	—	—	—	—	—	—	—	—
15 000	159	—	—	100.0	—	—	—	—
20 000	1 081	—	—	100.0	266	—	—	100.0
22 000	1 501	75	3	99.8	532	—	—	100.0
25 000	2 086	830	734	64.8	1 044	—	—	100.0
30 000	3 177	2 217	2 038	35.9	1 901	390	337	82.3
35 000	4 356	3 642	3 382	22.4	2 808	1 547	1 469	47.7
40 000	5 569	5 067	4 732	15.0	3 784	2 741	2 637	30.3
50 000	8 082	7 780	7 297	9.7	5 929	5 252	5 073	14.4
75 000	14 593	14 260	13 284	9.0	11 886	11 240	10 723	9.8

Note : A blank (—) indicates that no income tax is payable.

1 One spouse earns 60 % of the household income and the other, 40 %.

CHANGE IN INCOME TAX PAYABLE IN QUÉBEC
1987 TO 1989
(In dollars)

	Couple with three children, 6-11 one work income				Couple with three children, 6-11 two work incomes[1]			
Household work income	1987	1988	1989	Tax reduction from 1987 to 1989 in %	1987	1988	1989	Tax reduction from 1987 to 1989 in %
8 000	—	—	—	—	—	—	—	—
10 000	—	—	—	—	—	—	—	—
15 000	45	—	—	100.0	—	—	—	—
20 000	940	—	—	100.0	—	—	—	—
22 000	1 357	—	—	100.0	114	—	—	100.0
25 000	1 974	639	531	73.1	584	—	—	100.0
30 000	3 056	2 026	1 836	39.9	1 489	—	—	100.0
35 000	4 230	3 451	3 179	24.8	2 354	818	748	68.2
40 000	5 442	4 876	4 529	16.8	3 299	2 012	1 916	41.9
50 000	7 950	7 627	7 133	10.3	5 386	4 491	4 330	19.6
75 000	14 457	14 122	13 129	9.2	11 295	10 597	10 099	10.6

Note : A blank (—) indicates that no income tax is payable.

1 One spouse earns 60 % of the household income and the other, 40 %

CHANGE IN INCOME TAX PAYABLE IN QUÉBEC
1987 TO 1989
(in dollars)

	Single-parent family with one child, 6-11 not sharing a dwelling unit				Single-parent family with one child under 6 not sharing a dwelling unit			
Household work income	1987	1988	1989	Tax reduction from 1987 to 1989 in %	1987	1988	1989	Tax reduction from 1987 to 1989 in %
8 000	—	—	—	—	—	—	—	—
10 000	—	—	—	—	—	—	—	—
15 000	508	—	—	100.0	179	—	—	100.0
20 000	1 396	504	452	67.6	1 048	1	—	100.0
22 000	1 783	992	930	47.8	1 415	482	430	69.6
25 000	2 399	1 723	1 647	31.3	2 005	1 213	1 147	42.8
30 000	3 526	3 064	2 920	17.2	3 102	2 494	2 380	23.3
35 000	4 725	4 489	4 264	9.8	4 284	3 919	3 724	13.1
40 000	5 949	5 781	5 483	7.8	5 496	5 291	5 023	8.6
50 000	8 471	8 231	7 783	8.1	8 012	7 741	7 323	8.6
75 000	15 011	14 676	13 746	8.4	14 526	14 156	13 266	8.7

Note : A blank (—) indicates that no income tax is payable.

CHANGE IN INCOME TAX PAYABLE IN QUÉBEC
1987 TO 1989
(in dollars)

	Childless couple one work income				Childless couple two work incomes[1]			
Household work income	1987	1988	1989	Tax reduction from 1987 to 1989 in %	1987	1988	1989	Tax reduction from 1987 to 1989 in %
8 000	—	—	—	—	—	—	—	—
10 000	—	—	—	—	—	—	—	—
15 000	478	305	269	43.7	357	282	276	22.7
20 000	1 424	1 326	1 266	11.1	1 155	915	892	22.8
22 000	1 818	1 737	1 667	8.3	1 481	1 272	1 241	16.2
25 000	2 442	2 361	2 273	6.9	1 995	1 818	1 772	11.2
30 000	3 575	3 553	3 384	5.3	2 931	2 778	2 707	7.6
35 000	4 781	4 778	4 528	5.3	3 929	3 762	3 666	6.7
40 000	6 011	6 003	5 678	5.5	4 980	4 764	4 643	6.8
50 000	8 533	8 453	7 978	6.5	7 215	6 991	6 762	6.3
75 000	15 087	14 924	13 958	7.5	13 255	12 893	12 324	7.0

Note : A blank (—) indicates that no income tax is payable.

1 One spouse earns 60 % of the household income and the other, 40 %.

CHANGE IN INCOME TAX PAYABLE IN QUÉBEC
1987 TO 1989
(In dollars)

	Single person under 65 living alone				Single person under 65 sharing a dwelling unit			
Household work income	1987	1988	1989	Tax reduction from 1987 to 1989 in %	1987	1988	1989	Tax reduction from 1987 to 1989 in %
8 000	136	—	—	100.0	240	108	106	55.8
10 000	455	277	266	41.5	552	457	446	19.2
15 000	1 324	1 181	1 145	13.5	1 443	1 361	1 325	8.2
20 000	2 331	2 202	2 142	8.1	2 463	2 382	2 322	5.7
22 000	2 759	2 613	2 543	7.8	2 897	2 793	2 723	6.0
25 000	3 428	3 237	3 149	8.1	3 565	3 417	3 329	6.6
30 000	4 609	4 429	4 260	7.6	4 752	4 609	4 440	6.6
35 000	5 832	5 654	5 404	7.3	5 981	5 834	5 584	6.6
40 000	7 093	6 879	6 554	7.6	7 242	7 059	6 734	7.0
50 000	9 647	9 329	8 854	8.2	9 802	9 509	9 034	7.8
75 000	16 252	15 800	14 834	8.7	16 412	15 980	15 014	8.5

Note : A blank (—) indicates that no income tax is payable.

COMPARATIVE CHANGE IN MAXIMUM MARGINAL PERSONAL INCOME TAX RATES QUÉBEC-ONTARIO
(as a percentage of taxable income)

	Québec	Ontario	Differential
1976	63.7	61.3	2.4
1977	63.9	61.9	2.0
1978	68.9	61.9	7.0
1979	68.9	61.9	7.0
1980	68.4	61.9	6.5
1981	67.9	62.8	5.1
1982	60.4	50.3	10.1
1983	60.4	50.7	9.7
1984	60.4	51.1	9.3
1985	62.1	52.0	10.1
1986	59.5	55.4	4.1
1987	56.6	52.5	4.1
1988	51.1	46.1	5.0
1989	49.1	46.5	2.6

Note : According to information available at the beginning of May 1988.

Procedures and simplification

Tax reduction for families and property tax refund

At present, for the purpose of calculating the tax reduction for families, set for the 1988 taxation year at $ 485 per spouse or $ 970 per two-parent family, and $ 725 for a single parent not sharing a dwelling with another adult, the amount by which the total income of a dependent child entitling a taxpayer to a tax reduction exceeds $ 5 280 will lower the tax reduction by 7 % of that amount. Furthermore, all social aid payments based on an assessment of the funds received with regard to the child will lower the tax reduction by 45 % of the amount of social aid.

To better reflect the financial position of the child entitling the taxpayer to a tax reduction and simplify the relevant calculations, starting in the 1988 taxation year the tax reduction will be reduced by the amount by which the child's total income exceeds $ 5 280 and the total amount of social aid the child receives, based on an analysis of his or her resources.

For the purpose of establishing the tax reduction for families, account will be taken off the applicant's total income and that of his or her spouse, minus the principal amounts claimed as personal exemptions. Moreover, in order to reflect the zero tax thresholds, an additional deduction is being granted, totalling $ 5 880 for couples, $ 4 970 for a single parent not sharing a dwelling with a person other than a dependent child, and $ 3 210 for a single parent sharing at any time during the year a dwelling with a person other than a dependent child.

Following changes under the tax reform, the amounts deducted from total income as personal exemptions will be replaced by new amounts reflecting essential needs and other amounts used to determine tax credits. Furthermore, additional deductions of $ 5 880, $ 4 970 and $ 3 210 reflecting the zero tax threshold will be raised to $ 6 330, $ 5 340 and $ 4 115, respectively, in 1988.

Starting in the 1989 taxation year, a dependent child entitling a taxpayer to a tax reduction will be a dependent child covered by the tax credit for dependent children, whose total income does not exceed $ 6 250.

To further simplify the taxation system, the property tax refund will be modified by replacing personal exemptions with the value of essential needs or other amounts used to establish tax credits. The same applies to the increase in the additional deduction used to reflect the zero tax threshold and, in 1989, for the purpose of the property tax refund, only a dependent child covered by the tax credit for dependent children and whose total income does not exceed $ 6 250 will entitle a taxpayer to this additional deduction.

To simplify the taxation system, starting in 1988, when total income for the purpose of the tax reduction and the property tax refund is established, losses sustained by individuals with respect to a business or property will still be taken into account when such individuals calculate their total income, but these losses cannot reduce total spousal income.

Transitional measures governing availability allowances

Under rules governing availability allowances, individuals were entitled to such allowances with respect to a child under 6 on December 31 of the year in question. In 1989, an individual would have been eligible for an availability allowance for children who had not reached the age of 6 by December 31, 1988.

The replacement, beginning in January 1989, of the availability allowance with an allowance for young children that will be paid monthly, in addition to family allowances, as tax credits may mean that individuals do not receive the full amount equal to the amount otherwise due in 1989 in the form of availability allowances. This is especially true of an individual whose child turns 6 in early 1989, in which case the taxpayer will only receive the allowance for young children for a few months in 1989.

To avoid putting individual taxpayers at a disadvantage in 1989 because of the replacement of the availability allowance with the allowance for young children, a transitional rule is being adopted.

An individual who, in January 1989, receives an allowance with respect to young children under 6 will receive a minimum increase for each month of 1989, regardless of the basic family allowance. The minimum monthly payment will be $ 8.34 if the individual receives in January 1989 an increase with respect to a single child under 6. If the individual receives in January 1989 an increase with respect to two children under 6, the minimum monthly payment will be $ 25. If the individual receives an increase for more than two children under 6, the minimum monthly payment will be $ 25 increased by $ 41.67 for each subsequent child under 6.

When availability allowances were modified in 1987, at which time payments were set at $ 100 for the first child under 6, $ 200 for the second child, and $ 500 for the third and for any subsequent child under 6, it was decided to compensate social aid beneficiaries. This resulted in a $ 17-a-month increase in the availability allowance for each month in which the taxpayer received social aid benefits during the 1987 and 1988 taxation years, and an $ 8-a-month increase in 1989 if the availability allowance granted such individuals was $ 300 or less a year.

New rules will be adopted to avoid withdrawing from social aid beneficiaries the compensation guaranteed them for the 1988 and 1989 taxation years, in the wake of the replacement of the availability allowance with the allowance for young children paid as a tax credit. With a view to simplifying the taxation system, the new rules will stipulate that individuals who were entitled to the monthly compensation of $ 17 for each month they received social aid benefits during the 1987 taxation year will immediately receive in 1988 additional compensation of $ 25 for each month they received social aid benefits in 1987. The Minister of Revenue will establish the simplest possible administrative procedure to implement this measure.

APPORT program (assistance program for low-income families)

Under rules governing the APPORT program, benefits are established on the basis of a family threshold from which is notably deducted an amount reflecting ordinary needs covered by the social aid program. The threshold is set in such a way that a beneficiary of the APPORT program receives benefits until his income exceeds the zero tax threshold for Québec income tax.

Since the zero tax thresholds have been increased under the reform of the personal income tax system, starting in 1989 it will be necessary to increase the amounts used to set family thresholds under the APPORT program.

Eligible amounts for child care expenses under the APPORT program will be equal to the new amounts established for the purpose of personal income tax starting in 1988. Such expenses will no longer be tied to any allowance paid with respect to children.

AMOUNTS USED TO ESTABLISH FAMILY THRESHOLDS IN 1989
(In dollars)

	One dependent child	More than one dependent child
Two-parent family	10 032	11 810
Single-parent family not sharing a dwelling unit	7 974	9 746
Single-parent family sharing a dwelling unit	6 950	8 777

Tax credits for SODEQs and sociétés d'entraide économique

A taxpayer who acquired shares before April 24, 1985, in a company incorporated under the Act respecting the sociétés de développement de l'entreprise québécoise was entitled to a non-refundable tax credit equal to the lesser of 25 % of the cost of the shares and $ 25 per share. The portion of the tax credit not deducted at the end of the taxation year could be carried over to subsequent taxation years.

A taxpayer who, in 1982, received shares of the capital stock of a société d'entraide économique resulting from the conversion of the shares of a caisse d'entraide économique was entitled to claim a non-refundable tax credit equal to 25 % of the cost of these shares. The portion of this tax credit which was not deducted could also be carried over to subsequent taxation years.

Rules governing carry-overs of such tax credits mean that Québec taxpayers continue to claim piddling amounts each year.

To simplify the taxation system, the 1988 taxation year will be the last in which the tax credit respecting the sociétés de développement dans l'entreprise québécoise and the tax credit for sociétés d'entraide économique can be deducted. Moreover, balances unclaimed at the end of the 1988 taxation year will become refundable tax credits with respect to that year.

Abolition of the refund accorded certain self-employed individuals with regard to Québec Pension Plan contributions

Under the current Act to authorize the payment of allowances to certain self-employed workers, the government refunds to such workers who have insufficient income the employer's portion of their contributions to the Québec Pension Plan.

As the program itself is no longer achieving its initial objectives, for the purpose of simplifying the taxation system the Act will be abolished.

This measure will come into force starting in the 1988 taxation year.

2. Economic growth and job creation

2.1 Strategic investments for the economy

Improved investment tax incentives

New challenges, free trade and technological change

Québec businesses have to deal with many new challenges arising, in particular, from freer international trade and technological change. They can meet these challenges only if they have access to extensive sources of outside financing. Taxation plays a primary role at this level.

Recently, many factors have reduced the attractiveness for taxpayers of investment in certain activity sectors. These include the introduction of the cumulative net investment loss account, the $ 100 000 ceiling on the lifetime capital gains exemption, the reduction of certain tax benefits under the federal tax reform, the impact of the reduction of personal income tax rates and the uncertainty prevailing in equity markets since last fall. Although the reform announced today substantially reduces the maximum marginal personal income tax rate in Québec, the difference compared to the corresponding rates applicable in other provinces has not been completely eliminated.

A package of new fiscal measures is being applied to help channel the savings of Québec taxpayers towards activities considered of major importance to Québec's economic growth and to improve the overall effectiveness of strategic investment vehicles. At the same time, these measures will help reduce the difference between maximum marginal tax rates in Québec and other provinces.

Creation of a strategic economic investment account

New deduction for strategic economic investments

An account encompassing all investment vehicles of strategic value for the economy is being introduced. Its effect will be to exclude a significant portion of the tax deductions granted for strategic investments in Québec from the alternative minimum tax. This will enable taxpayers to further benefit from their participation in Québec's economic development.

Promote participation in economic development

Furthermore, to promote optimum utilization of this new account, improve the overall effectiveness of strategic investment vehicles and ensure that the tax deductions granted for these vehicles better correspond to the risk associated with each category of investment, the deductions for an investment in Québec film production and in research and development are increased.

The break-even points for such investments will fall significantly as a result of these amendments and will henceforth be substantially lower than those for less risky investments. The break-even point of various investment vehicles is one of the main variables in the investor's decision-making process. This variable is the minimum selling price the investor must obtain to cover the cost of an investment. It differs from the net cost because it also takes into account the tax treatment of the capital gain or loss upon the disposal of the investment.

COMPARISON OF THE BREAK-EVEN POINTS OF A $ 100 INVESTMENT IN VARIOUS VEHICLES 1989 TAXATION YEAR[1] (In dollars)

	Present situation	Situation after the Budget Speech
Resource exploration	57.57	57.57
Québec film production	69.88	57.98
QSSP (rate of 100 %)	64.33	64.33
QSSP / R & D (Rate of 100 % plus additional deductions)[2]	64.33	28.65 to 55.41

1 The estimate of the break-even points is based on the maximum marginal federal and Québec income tax rates after reform. In the hypothesis considered, the taxpayer has reached his $ 100 000 lifetime capital gains exemption ceiling. The capital gains inclusion rate is 66 2/3 %.

2 The break-even point varies with the rate of the additional deduction and with the percentage of the proceeds of the issue used for financing research and development expenditures. At least 50 % of expenditures are deemed to be made up of wages.

Details of operation

Currently, the deductions for strategic investments specific to Québec are calculated individually. Some even feature ceilings unrelated to the taxpayer's income. In addition, under existing rules, deductions for an investment in a Québec Stock Savings Plan, a Québec Business Investment Company, the Cooperative Investment Plan, the research and development sector, Québec film production and mining, oil and gas exploration in Québec are taken into account in calculating the alternative minimum tax. Briefly, under the rules of this tax, every taxpayer enjoys a basic exemption of $ 40 000. Those with income above this amount may be restricted by the alternative minimum tax if they wish to claim more than $ 40 000 in deductions which constitute tax preferences, including deductions for various investments strategic for the economy.

To further encourage the use of these strategic economic investment vehicles, a taxpayer in Québec may, beginning in the 1988 taxation year, deduct from his taxable income, regardless of the alternative minimum tax, the total of the eligible deductions for various strategic economic investments, up to 15 % of his total income. In computing eligible deductions, losses that can be carried forward, other than capital losses, relating to strategic economic investments may be taken into account. In addition, to simplify matters, the deductions relating to various strategic economic investments will be combined in computing taxable income so that they can be shown in a single schedule of the tax return.

Consequently, a taxpayer who makes strategic economic investments in Québec will, in addition to the basic $ 40 000 alternative minimum tax exemption, enjoy a further exemption of 15 % of his total income. The eligible portion of such strategic investment deductions in excess of 15 % of the taxpayer's total income will continue to be taken into account in calculating the minimum tax. For this purpose, adjustments will be made to take net income from strategic investments into consideration.

Finally, in view of the new tax table applicable beginning in taxation year 1988, the alternative minimum tax rate will be 16 %.

Simplified total income

At present, the concept of total income is used to calculate the maximum eligible deductions for the Québec Stock Savings Plan, the Cooperative Investment Plan and Québec Business Investment Companies. The existing concept of total income is very complicated and requires taxpayers to make additional calculations when filing their returns. The taxpayer must subtract from his total income certain amounts, including training allowances, net research grants, benefits under a Registered Retirement Savings Plan, income averaging annuities, his deduction for the lifetime taxable capital gains exemption, his eligible business investment losses, etc.

Simplification

To simplify the calculations, beginning in the 1988 taxation year, the notion of total income used for these deductions will be amended to correspond to the concept of net income, as calculated under the tax legislation and appearing in the tax return, less the deduction for the lifetime taxable capital gains exemption.

This simplified notion of total income will be used for the purposes of the new strategic investment account.

Eligible deductions for strategic economic investments

The new strategic economic investment account includes eligible deductions specific to Québec's tax system relating to the Québec Stock Savings Plan, the Cooperative Investment Plan, Québec Business Investment Companies, scientific research and experimental development, Québec film production and mining, oil and gas exploration carried out in Québec. These deductions will not be taken into account in computing cumulative net investment losses. The following table shows the eligible portion of deductions for various strategic economic investments.

ELIGIBLE PORTION OF STRATEGIC ECONOMIC INVESTMENT DEDUCTIONS
(deduction rate as of July 1, 1988)

	Canada and Québec [1]	Portion eligible for deductions in Québec only [2]	Total	Individual ceiling according to income
	%	%	%	
Québec film production	*	166 2/3	166 2/3	none
Resource exploration	100 [3]	33 1/3	133 1/3	none
Québec Stock Savings Plan				
• developing corporation	n.a.	100	100	
• medium-sized corporation	n.a.	75	75	
• large corporation	n.a.	50	50	10 %
• additional deductions for stock ownership plan	n.a.	25	25	
• additional deductions for R & D	n.a.	50 or 100	50 or 100	none
Cooperative Investment Plan	n.a.	100	100	10 %
Québec Business Investment Company				
• basic deduction	n.a.	100	100	
• additional deduction for stock ownership plan	n.a.	25	25	20 %
• additional deduction for regional QBIC	n.a.	25	25	
• additional deductions for R & D	n.a.	50 or 100	50 or 100	none
Total constraint	Minimum income tax	15 % of total income (excess income is subject to minimum income tax)	Minimum income tax + 15 % of total income	

* For federal income tax purposes, depreciation may be claimed on the declining balance.

1 Non-eligible portion of the deduction.

2 Eligible portion of the deduction. The 133 1/3 % and 166 2/3 % R & D transitional deductions and the 125 % deduction for regional venture capital corporations are also eligible.

3 The 100 % deduction for exploration costs in Canada. The federal government also grants a deduction for earned depletion for such costs incurred after June 30, 1988, but before January 1, 1990.

More generous deductions for strategic economic investments

Québec Stock Savings Plan

To increase the effectiveness of the Québec Stock Savings Plan, the existing rules have been amended concerning the primary market for qualifying shares and rules are being introduced to improve the performance of certain securities in the secondary market.

— ***Measures concerning the primary market for shares***

– *Maximum deduction increased*

At present, a taxpayer's maximum deduction for the QSSP is limited to the lesser of 10 % of his total income and $ 5 500, less 150 % of the cost of shares in the Fonds de solidarité des travailleurs du Québec (FTQ) for which he claimed a tax credit for the same year.

$ 5 500 ceiling eliminated

Beginning in taxation year 1988, the maximum amount a taxpayer may deduct in a year for QSSP purposes will be subject only to a ceiling of 10 % of his total income. The existing ceiling of $ 5 500 is eliminated as of this year and credits claimed for shares of the Fonds de solidarité des travailleurs du Québec (FTQ) will no longer limit the allowable QSSP deduction. In addition, the concept of total income has been simplified and corresponds to the one used for the new strategic economic investment account. These measures will help simplify the system and stimulate investment by taxpayers.

The $ 1 000 ceiling for shares of large corporations and subordinate shares remains in force.

– *Broadening of the developing corporation category*

The deduction rates applicable to QSSP securities generally depend on the size of the issuing corporation and the class of securities issued. Without considering the additional deductions for stock ownership plans, research and development and regional venture capital corporations, the highest deduction rate is 100 %. This rate applies to the developing corporation category, which at present includes corporations with assets between $ 2 000 000 and $ 25 000 000, or net shareholders' equity of at least $ 750 000 but no more than $ 10 000 000.

Maximum assets of developing corporations raised to $ 50 000 000

To enable more small and medium-sized corporations to enjoy the advantages of the developing corporation category, the category will be expanded to encompass corporations with assets between $ 2 000 000 and $ 50 000 000 or net shareholders' equity of at least $ 750 000 but no more than $ 20 000 000. This measure will apply to any corporation which makes a public issue of shares which qualifies for the Québec Stock Savings Plan beginning after the day of the Budget Speech, that is, to any share issue for which a receipt for the final prospectus or the exemption from filing a prospectus is granted after the day of the Budget Speech.

This measure will also apply to shares, included in a public share issue qualifying under the Québec Stock Savings Plan beginning after the day of the Budget Speech, which were purchased on the primary market through the exercise of subscription rights acquired after May 1, 1986. Therefore, it will not apply to shares acquired after the day of the Budget Speech through the exercise of subscription rights acquired prior to May 2, 1986 or subscription rights acquired after May 1, 1986 provided, in the latter case, the shares thus acquired were not included in a public share issue qualifying under the Québec Stock Savings Plan beginning after the day of the Budget Speech.

— ***Measures to improve the performance of securities in the secondary market***

– *Purchase of securities in the secondary market for coverage*

Under existing rules, a taxpayer who has enjoyed a deduction under the QSSP must, during the year of the investment which entitled him to the deduction and the two subsequent calendar years, hold in his QSSP portfolio eligible securities for which the adjusted cost is at least equal to the deduction claimed by such taxpayer for the investment to avoid being taxed on the amount deducted. Eligible securities may be withdrawn from a QSSP during this period, with no other tax consequences, provided they are replaced by eligible securities acquired in the primary market no later than December 31 of each such year. This procedure is commonly known as "coverage".

The only securities eligible for the Québec Stock Savings Plan are those acquired in the primary market by the initial purchaser. Once these securities are issued into the primary market they do not entitle subsequent purchasers to a tax deduction, nor may they be used for coverage by subsequent purchasers. The lack of trading in certain securities of small corporations in the secondary market may have negative short-term consequences on the price of these securities. The low trading volume results notably from the lack of interest among institutional investors in these securities and the rules of the Québec Stock Savings Plan which encourage taxpayers to concentrate their trading in the primary rather than the secondary market.

QSSP securities of developing corporations

To encourage taxpayers to purchase the stock of low-capitalization corporations in the secondary market, the rules of the Québec Stock Savings Plan will be amended to enable a taxpayer to purchase, effective June 1, 1988, on the secondary market and for coverage purposes only, eligible stock in developing corporations included in a list published by the Commission des valeurs mobilières du Québec, and include them in his Québec Stock Savings Plan.

– *Securities eligible for coverage*

Securities eligible for coverage are those listed on the Montréal Exchange at the time of purchase on the secondary market and issued as part of a public issue of shares qualifying for the QSSP and entitling the purchaser to a basic deduction rate of at least 75 %, or those in the same class, by a corporation which, when it obtained the receipt for the final prospectus or the exemption from filing the prospectus relating to its last issue, satisfied or would have satisfied the criteria for a developing corporation. In addition, a developing corporation's securities acquired in the secondary market will be eligible for coverage if such acquisition was made on a stock exchange during a period of no more than three years starting on the day of the beginning of the corporation's last public issue as a corporation qualifying under the QSSP as a developing corporation, that is, the day on which the receipt for the final prospectus or the exemption from filing a prospectus relating to this issue was granted, and ending either on the third December 31 following such day, or on the second December 31 following such day, if it is a December 31, or the date of the beginning of a new public share issue if the corporation does not then satisfy the criteria for a developing corporation and is no longer included in the Commission des valeurs mobilières du Québec list.

Finally, beginning in 1989, the eligibility period of securities for coverage purposes will be extended one year. In general, then, these rules will enable qualifying shares of an eligible developing corporation for which a share issue

has been carried out since 1986 to be eligible for coverage purposes in 1988 and 1989. Similarly, in 1990, in general, securities issued since 1987 will be eligible for coverage purposes, and so on.

Also, if during the period described above and following a purchase or redemption a corporation carries out a share issue which would otherwise have qualified under the QSSP for the purposes of coverage required to avoid the application of the second part of the redemption penalty, for an amount equal to that of the redemption or purchase, and shares of this corporation of the same class bought on the secondary market may be included in a QSSP for coverage purposes only, the securities of this corporation acquired on the primary market may also be included in a QSSP, but only for coverage purposes.

Furthermore, a share issued for a split or replaced share covered by a public issue under the QSSP may be deemed to qualify for coverage purposes when purchased on the secondary market if the split or replacement is the result of a capital restructuring, and if this replacement share, at the time it was issued, entitled the purchaser to a basic deduction of at least 75 %. When a share of this kind is issued to replace an eligible security for a merger, a replacement share will constitute an eligible share if the corporation resulting from the merger satisfies, immediately after the merger, the requirements for qualification as a developing corporation. For this purpose, for a share of this kind to be deemed eligible for coverage, when purchased on the secondary market, a corporation will have to obtain a favourable advance ruling from the ministère du Revenu to this effect and have the securities included in the list published by the Commission des valeurs mobilières du Québec.

Corporations that fail to satisfy the criteria for developing corporations when the receipt for the final prospectus or the exemption from filing a prospectus for their last public issue of shares under the QSSP is granted will have to obtain an advance ruling from the ministère du Revenu so that their securities may be deemed eligible for coverage purposes, if they can then demonstrate that they satisfy the new criteria for developing corporations, i.e. that their assets are between $ 2 000 000 and $ 50 000 000 or their shareholders' equity is at least $ 750 000 but not more than $ 20 000 000.

The adjusted cost of eligible securities will correspond to the purchase price of the securities on the secondary market in the case of common shares with full voting rights or preferred shares convertible into common shares with full voting rights, or to 75 % of the purchase price in the case of subordinate shares with voting rights or preferred shares convertible into subordinate shares with voting rights. For this purpose, the costs of borrowing, of acquisition and of custody are not included in the purchase price. Furthermore, brokers or other authorized persons will have to indicate separately, on the information slip they must provide for the taxpayer, the adjusted cost of such securities included in a QSSP during the current year.

The shares of regional venture capital corporations will also be eligible for these measures to promote the secondary market.

– *Official list of eligible securities*

Between now and June 1, 1988 and periodically thereafter, the Commission des valeurs mobilières du Québec will publish a list showing the eligible securities issued which may be purchased in the secondary market and included in a Québec Stock Savings Plan for coverage purposes only.

— ***Measures to improve the performance of securities in the secondary market***

– *Purchase of securities in the secondary market for coverage*

Under existing rules, a taxpayer who has enjoyed a deduction under the QSSP must, during the year of the investment which entitled him to the deduction and the two subsequent calendar years, hold in his QSSP portfolio eligible securities for which the adjusted cost is at least equal to the deduction claimed by such taxpayer for the investment to avoid being taxed on the amount deducted. Eligible securities may be withdrawn from a QSSP during this period, with no other tax consequences, provided they are replaced by eligible securities acquired in the primary market no later than December 31 of each such year. This procedure is commonly known as "coverage".

The only securities eligible for the Québec Stock Savings Plan are those acquired in the primary market by the initial purchaser. Once these securities are issued into the primary market they do not entitle subsequent purchasers to a tax deduction, nor may they be used for coverage by subsequent purchasers. The lack of trading in certain securities of small corporations in the secondary market may have negative short-term consequences on the price of these securities. The low trading volume results notably from the lack of interest among institutional investors in these securities and the rules of the Québec Stock Savings Plan which encourage taxpayers to concentrate their trading in the primary rather than the secondary market.

QSSP securities of developing corporations

To encourage taxpayers to purchase the stock of low-capitalization corporations in the secondary market, the rules of the Québec Stock Savings Plan will be amended to enable a taxpayer to purchase, effective June 1, 1988, on the secondary market and for coverage purposes only, eligible stock in developing corporations included in a list published by the Commission des valeurs mobilières du Québec, and include them in his Québec Stock Savings Plan.

– *Securities eligible for coverage*

Securities eligible for coverage are those listed on the Montréal Exchange at the time of purchase on the secondary market and issued as part of a public issue of shares qualifying for the QSSP and entitling the purchaser to a basic deduction rate of at least 75 %, or those in the same class, by a corporation which, when it obtained the receipt for the final prospectus or the exemption from filing the prospectus relating to its last issue, satisfied or would have satisfied the criteria for a developing corporation. In addition, a developing corporation's securities acquired in the secondary market will be eligible for coverage if such acquisition was made on a stock exchange during a period of no more than three years starting on the day of the beginning of the corporation's last public issue as a corporation qualifying under the QSSP as a developing corporation, that is, the day on which the receipt for the final prospectus or the exemption from filing a prospectus relating to this issue was granted, and ending either on the third December 31 following such day, or on the second December 31 following such day, if it is a December 31, or the date of the beginning of a new public share issue if the corporation does not then satisfy the criteria for a developing corporation and is no longer included in the Commission des valeurs mobilières du Québec list.

Finally, beginning in 1989, the eligibility period of securities for coverage purposes will be extended one year. In general, then, these rules will enable qualifying shares of an eligible developing corporation for which a share issue

has been carried out since 1986 to be eligible for coverage purposes in 1988 and 1989. Similarly, in 1990, in general, securities issued since 1987 will be eligible for coverage purposes, and so on.

Also, if during the period described above and following a purchase or redemption a corporation carries out a share issue which would otherwise have qualified under the QSSP for the purposes of coverage required to avoid the application of the second part of the redemption penalty, for an amount equal to that of the redemption or purchase, and shares of this corporation of the same class bought on the secondary market may be included in a QSSP for coverage purposes only, the securities of this corporation acquired on the primary market may also be included in a QSSP, but only for coverage purposes.

Furthermore, a share issued for a split or replaced share covered by a public issue under the QSSP may be deemed to qualify for coverage purposes when purchased on the secondary market if the split or replacement is the result of a capital restructuring, and if this replacement share, at the time it was issued, entitled the purchaser to a basic deduction of at least 75 %. When a share of this kind is issued to replace an eligible security for a merger, a replacement share will constitute an eligible share if the corporation resulting from the merger satisfies, immediately after the merger, the requirements for qualification as a developing corporation. For this purpose, for a share of this kind to be deemed eligible for coverage, when purchased on the secondary market, a corporation will have to obtain a favourable advance ruling from the ministère du Revenu to this effect and have the securities included in the list published by the Commission des valeurs mobilières du Québec.

Corporations that fail to satisfy the criteria for developing corporations when the receipt for the final prospectus or the exemption from filing a prospectus for their last public issue of shares under the QSSP is granted will have to obtain an advance ruling from the ministère du Revenu so that their securities may be deemed eligible for coverage purposes, if they can then demonstrate that they satisfy the new criteria for developing corporations, i.e. that their assets are between $ 2 000 000 and $ 50 000 000 or their shareholders' equity is at least $ 750 000 but not more than $ 20 000 000.

The adjusted cost of eligible securities will correspond to the purchase price of the securities on the secondary market in the case of common shares with full voting rights or preferred shares convertible into common shares with full voting rights, or to 75 % of the purchase price in the case of subordinate shares with voting rights or preferred shares convertible into subordinate shares with voting rights. For this purpose, the costs of borrowing, of acquisition and of custody are not included in the purchase price. Furthermore, brokers or other authorized persons will have to indicate separately, on the information slip they must provide for the taxpayer, the adjusted cost of such securities included in a QSSP during the current year.

The shares of regional venture capital corporations will also be eligible for these measures to promote the secondary market.

– *Official list of eligible securities*

Between now and June 1, 1988 and periodically thereafter, the Commission des valeurs mobilières du Québec will publish a list showing the eligible securities issued which may be purchased in the secondary market and included in a Québec Stock Savings Plan for coverage purposes only.

– *Relaxation of redemption penalties and other details*

The rules governing the Québec Stock Savings Plan stipulate penalties for certain redemptions or purchases of stock by a corporation on the secondary market. However, a rule has been introduced so that these penalties will not be applied when, over a twelve-month period, a corporation makes redemptions the total cost of which is less than 5 % of total corporate paid-up capital relating to stock included in its permanent capitalization. However, the total cost of these redemptions may not exceed 10 % of the adjusted cost of shares qualifying for the Québec Stock Savings Plan and distributed in Québec. Nonetheless, to allow for the exceptional situation which prevailed in the stock market, the 10 % limit on the adjusted cost of shares qualifying under the QSSP was lifted until March 1, 1988.

QSSP corporations can redeem 5 % of their paid-up capital

Since the stock market has not yet fully stabilized and a corporation may have good business reasons for redeeming some of its securities, the last relief measure introduced November 19, 1987 is being reintroduced for an indefinite period for all redemptions carried out since May 7, 1986.

Redemption penalties will, therefore, not apply when a corporation makes redemptions over a twelve-month period, the total cost of which is less than 5 % of total corporate paid-up capital relating to stock included in its permanent capitalization.

A technical amendment will also be introduced to ensure that the existing power of the Minister of Revenue to refrain from imposing redemption penalties may be used when the Minister feels that the imposition of penalties would cause an undesirable situation.

Some of these securities can be acquired by a QSSP investment fund

Changes will be made to ensure that redemption penalties under the Québec Stock Savings Plan apply in every case, including redemptions of securities covered by a private placement. The latter changes will apply to redemptions carried out after the day of the Budget Speech.

Increase in the additional deduction for Québec film productions

A taxpayer acquiring an interest in a Canadian film production after 1987 can deduct, as depreciation, 30 % of the residual value of the cost of his interest in such a production, regardless of the half-year rule. In addition, a further deduction is granted when the yearly income derived from Canadian film productions is sufficient.

However, Québec's tax system allows the taxpayer the possibility of deducting, in the year of the investment, the entire amount invested in Québec film productions, regardless of the half-year rule. In addition, since January 1, 1988, certified Québec films have generally entitled the investor to a further personal income tax deduction equal to 33 1/3 % of their capital cost. Finally, only half of the deduction for depreciation is taken into account to compute cumulative net investment losses.

Although the 133 1/3 % deduction for Québec film productions is a significant tax benefit, it appears the measure is insufficient considering the break-even points of such investments compared to those of other, less risky investments.

Deduction for Québec films up from 33 1/3 % to 66 2/3 %

The additional deduction of 33 1/3 % is therefore increased to 66 2/3 % so that the tax advantage granted for an investment in a certified Québec film will more adequately reflect the high risk element in such investments.

Furthermore, the basic deduction granted for a certified Québec film will not be included in computing cumulative net investment losses, as is the case for the additional deduction of 66 2/3 %.

These measures will apply, starting in taxation year 1988, to certified Québec films covered by the additional 33 1/3 % deduction introduced December 18, 1987.

Exploration expenses incurred in Québec

At present, a taxpayer may deduct, in addition to all his eligible mining exploration expenses incurred in Canada relating to a mineral resource or oil or natural gas wells, an earned depletion allowance equal to 33 1/3 % of these expenses. However, this earned depletion allowance will generally be reduced to 16 2/3 % for such expenses incurred between June 30, 1988 and January 1, 1990 and will be completely eliminated afterwards.

Additional deduction of 33 1/3 % maintained

However, an additional deduction of 33 1/3 % for exploration expenses incurred in Québec between June 30, 1988 and January 1, 1990 will be granted to replace the earned depletion allowance. This additional deduction may be claimed by an individual against his income from all sources.

Nonetheless, the additional deduction is restricted to exploration expenses incurred by companies whose main activity is exploration or development of mineral resources or oil or natural gas wells, excluding any activity relating to the exploitation of such resources.

Furthermore, last May 3, the federal government announced the Canadian Exploration Incentives Program (CEIP). This program will become effective January 1, 1989 for mining exploration, and October 1, 1988 for the oil and gas industry. It will provide eligible corporations financing mining, oil and gas exploration work through the issue of flow-through shares, with premiums equal to 30 % of eligible expenditures, subject to a ceiling of $ 10 000 000 per year.

The federal Minister of Finance also announced an amendment extending the 33 1/3 % earned depletion allowance for six months for certain mining exploration expenses incurred after June 30, 1988. With respect to the latter amendment, Québec will change its tax legislation and regulations to integrate, with adaptations, the amendments to the federal tax system.

Furthermore, the additional deduction of 33 1/3 % introduced in the December 18, 1987 Minister's Statement is maintained to avoid penalizing projects that might not qualify for the federal program but would be eligible for the additional allowance. However, the exploration expenditures for which a taxpayer may claim the earned depletion allowance in Québec or the premium under the Canadian Exploration Incentives Program will not entitle the taxpayer to this additional deduction. In addition, in contrast to the earned depletion allowance, the additional deduction for exploration expenses in Québec may be included in the strategic economic investment account.

Finally, once the regulations of the new federal program are made known, Québec's specific policy concerning exploration expenses will be reassessed.

Measures to promote investment in R&D

Additional deductions of 50 % and 100 % for QSSP/R & D and QBIC/R & D

To ensure that venture capital continues to be raised through outside financing by private investors to finance research and development, new measures are being introduced. The purpose of these new measures is to match Québec Stock Savings Plan and Québec Business Investment Company vehicles with

research and development activities. For example, when a corporation that qualifies under the Québec Stock Savings Plan makes an issue the greater part of the proceeds of which are to be used to finance scientific research and experimental development projects, the shareholder may be entitled, under certain conditions, if research and development expenditures have been made, to an additional deduction of 50 % or 100 %.

The details of these measures are included in the section entitled "Financing for research and development".

Québec Business Investment Companies

— ***Regional Québec Business Investment Companies***

Additional deduction of 25 % for regional QBICs

Québec Business Investment Companies are a special financing vehicle to enable small and medium-sized businesses to develop. In addition, in view of the special difficulties of regional economic development, additional tax incentives are being introduced to promote the creation of regional Québec Business Investment Companies. These incentives consist of an additional deduction of 25 %, or an additional credit of 5 % if applicable, for investments in regional Québec Business Investment Companies, a reduction of the minimum paid-up capital of such a company from $ 100 000 to $ 50 000 and the creation of a program of grants for start-up costs and costs of incorporation and an initial investment by such companies.

The details of these measures are included in the section entitled "Additional assistance for the creation of regional Québec Business Investment Companies".

— ***Development centres for the growth of small and medium-sized business***

Creation of development centres using QBICs

At present, a shareholder of a Québec Business Investment Company may be entitled to a deduction in computing his income when the company makes an eligible investment. For this purpose, an investment is only considered eligible if it is made in a corporation which is active mainly in a prescribed industry, namely, the manufacturing, tourism, tertiary growth, aquiculture or export sectors.

The objective of the QBIC program is, among others, to provide access for small businesses to sources of outside financing for their development. The new "industrial development centres", whose objective is to help small businesses successfully negotiate the initial phases of their development by providing common premises, and administrative and advisory services, match the objectives of the QBIC program.

To encourage the creation of industrial development centres, involvement in such an enterprise by such a corporation will constitute an activity eligible for the QBIC program. This measure will apply to any eligible investment made by a QBIC after the effective date of the regulation.

— ***Introduction of a tax credit for public venture capital corporations***

Under existing rules, a shareholder of a Québec Business Investment Company must be a natural person or a private venture capital corporation. A private venture capital corporation is a private corporation other than the Fonds de solidarité des travailleurs du Québec (FTQ) or a corporation which has already issued shares that qualify under the Québec Stock Savings Plan. The activities of such a corporation consist mainly in acquiring shares of the capital stock of corporations and granting them unsecured loans, and the majority of

their investments are made in corporations not listed on a stock exchange. These investments provide support for the management of such corporations. A venture capital corporation of this kind may generally claim a tax credit of 20 % of its participation in an eligible investment for the year.

20 % tax credit

In order that venture capital corporations of all types, public or private, may claim these tax benefits, and thus to further stimulate the formation of Québec Business Investment Companies, a public venture capital corporation may, from now on, under certain conditions, be a shareholder of a Québec Business Investment Company and enjoy the same tax credit as that applicable to private venture capital corporations.

This measure will apply to all shares of the capital stock of a Québec Business Investment Company issued after the day of the Budget Speech.

— ***Eligible investments in a fledgling business and other types of business***

Currently, the shareholders of a Québec Business Investment Company are entitled to a deduction only if this company makes an investment in an eligible corporation. Such a corporation must satisfy a number of rules. To qualify as an eligible corporation, a fledgling business is, however, covered by special rules designed to promote its development.

For instance, a fledgling business must be active in an industry determined by regulation, and must do so within the four months following the investment whereas, in general, this requirement must be satisfied at the time of the investment. In addition, such a business is not required to have paid, during the twelve months preceding the date of acquisition of the investment, more than 75 % of its wages to employees of an establishment located in Québec.

Although a fledgling business is covered by less stringent qualification rules, the existing rules could exclude investment projects in fledgling businesses that, nonetheless, meet the objectives of the Québec Business Investment Company program. A situation of this kind may also develop in other circumstances.

To promote the development of new businesses, and to promote improved capitalization of existing ones, the Société de développement industriel du Québec may henceforth give its approval to an investment in a corporation when, in its opinion, the investment satisfies the objectives of the Québec Business Investment Company program and a legal technicality might render the investment ineligible.

As a corollary, to safeguard the fiscal integrity of the Québec Business Investment Company program, the Société de développement industriel du Québec may henceforth refuse to give its approval to an investment when, in its opinion, such investment does not satisfy the program's objectives.

These measures apply to all investments by a Québec Business Investment Company made after the day of the Budget Speech.

— ***Tax treatment following the death of a shareholder***

The amount of the deduction to which a shareholder of a Québec Business Investment Company is entitled depends on his participation in the investment by the company and may not exceed his financial commitment in the company.

For purposes of computing this financial commitment at a given time, the paid-up capital relating to the shares of the capital stock of the Québec Business Investment Company held by the shareholder at this time as true owner and the cost of such shares computed without considering the cost of borrowing and other costs inherent in their acquisition and custody must, in particular, be taken into account. When a shareholder of a Québec Business Investment Company dies, the taxpayer inheriting his shares is deemed to have acquired them at a cost generally equal to their fair market value at the time of death. Consequently, to the extent that the cost of the shares to the heir is below the cost to the deceased shareholder, the amount of the deduction he may claim for an eligible investment after the death is reduced.

To ensure that there is no change in the amount of the deduction which the heir may claim, an amendment will be made providing that, for purposes of this deduction only, the cost of the shares of the capital stock of a Québec Business Investment Company to a shareholder who has inherited them from a deceased taxpayer shall be deemed equal to the cost of such shares to the deceased taxpayer.

Furthermore, changes will also be made so that on the death of a shareholder of a Québec Business Investment Company, the deduction for an eligible investment made after the death of the shareholder may be claimed.

These measures will apply beginning on the day following the Budget Speech.

— ***Technical amendments***

Technical amendments will be made to the rules covering Québec Business Investment Companies to :

- enable the Société de développement industriel du Québec to more effectively follow up investments made by a Québec Business Investment Company. In this regard, the rules concerning the requirement that the Québec Business Investment Company submit to the Société de développement industriel du Québec its financial statements and those of the eligible corporation in which it holds an eligible investment, within four months of the end of each of the five fiscal years following the date of an eligible investment, will be tightened and extended to the eligible corporation. Furthermore, the penalty applicable when, among other things, the financial statements are not submitted will be broadened, notably, to cases in which the Québec Business Investment Company is no longer registered two years after the date of an investment;

- amend the definitions of a ski business and a tourism business, for purposes of deciding whether a corporation is active in an eligible activity sector in order to harmonize these definitions with those of the tourism investment assistance programs; and

- ensure that the penalty does not apply in the case where a non-arm's length relation would be created between the Québec Business Investment Company and the eligible corporation by a transaction which may prevent the bankruptcy of the corporation and which consists, for example, in the acquisition by the Québec Business Investment Company of shares of the eligible corporation held by a third party.

Cooperative Investment Plan (CIP)

— *Increase in the ceiling on eligible contributions to the CIP*

Along with the new ceiling on eligible deductions allowed for the Québec Stock Savings Plan, the ceiling that will apply from now on to the CIP deduction has been amended.

$ 5 500 ceiling eliminated

Starting in taxation year 1988, the maximum amount a taxpayer may deduct in a year for purposes of the CIP is limited to a single ceiling of 10 % of his total income, regardless of the limit of $ 5 500 or the amounts he has deducted during the year for purposes of the Québec Stock Savings Plan and shares of the Fonds de solidarité des travailleurs du Québec (FTQ) for which he receives a tax credit for the year. In addition, the notion of total income has been simplified and is the same one used for purposes of the Québec Stock Savings Plan and the calculation of the ceiling of the new strategic economic investment account. Furthermore, taxpayers claiming an eligible deduction under the Cooperative Investment Plan in a year may take advantage of the new strategic economic investment account.

— *Relaxation of the minimum holding period for securities*

Currently, under the rules governing the CIP, a cooperative may, subject to certain conditions, including an increase in its reserve, redeem an eligible security beginning in the fourth year following the year it was issued.

To relax the rules covering the CIP, the period prior to redemption will be reduced to three years. An eligible security may therefore be redeemed beginning in the third year following the year it was issued.

This measure will apply to all redemptions made after the day of the Budget Speech.

— *Changes in the rules applicable to certain redemptions*

Under the existing CIP rules, when an eligible security owned by a holder who has reached 65 or 60 if he is retired is redeemed, the requirement concerning the increase in the cooperative's reserve may be satisfied during a year subsequent to the redemption, but prior to any further redemption. This rule also applies in the case of a resignation or exclusion of a holder of securities provided further that the eligible security was held for at least one year from the date of resignation or exclusion of the security holder.

With a view to relaxing the redemption rules, it will no longer be necessary to increase the reserve upon the redemption of a security held by a person who has reached age 65 or age 60 if retired. This relaxation will also apply for a member of a cooperative who is 65 or 60 if he is retired and withdraws from the cooperative.

In addition, in the case of a redemption made upon resignation or exclusion, the cooperative will still be required to increase the reserve during a subsequent year before any other redemption is made. However, from now on, the security need no longer be held for a period of one year from the date of the resignation or exclusion of a security holder before it is redeemed.

These measures will apply to any redemption made after the day of the Budget Speech.

— ***Term of an eligibility certificate***

Currently, a cooperative wishing to issue securities qualifying for the Cooperative Investment Plan must obtain an eligibility certificate from the Minister of Industry and Commerce authorizing the issue of such securities. The certificate is valid for the 24 months following the date of issue, unless it is revoked.

To relax the CIP procedure, certificates issued after the day of the Budget Speech will no longer be limited to a fixed period of time and will be valid indefinitely, subject to revocation.

QSSP investment funds

— ***Amendments flowing from those made to the Québec Stock Savings Plan***

In general, the amendments announced today for the Québec Stock Savings Plan will automatically apply to QSSP investment funds. Since the securities of such funds are included in taxpayer QSSPs, the securities held by a taxpayer in a QSSP investment fund will be part of a strategic economic investment account. In addition, the fund may acquire stock in developing corporations in the secondary market for coverage, like any other holder of Québec Stock Savings Plan securities.

Finally, the fund may entitle its members to an additional deduction of 50 % or 100 % for shares it purchases as part of an issue of shares qualifying for the Québec Stock Savings Plan, the greater part of the proceeds of which are used to finance scientific research and experimental development, if applicable conditions are met.

— ***Residence of the fund trustee or manager***

At present, to qualify as a QSSP investment fund, an investment fund must, in particular, be established in Québec and its trustee or manager must reside in Québec.

To enable Canadian trustees or managers residing outside Québec to establish these funds in Québec, the rules concerning QSSP investment funds will be amended. The trustee or manager of such funds will be authorized to reside outside Québec, though in Canada, provided he maintains a permanent establishment in Québec. This amendment is effective as of January 1, 1988.

— ***Exemption from filing prospectus***

Currently, to qualify under the Québec Stock Savings Plan, a security issued by an investment fund must be covered by a final prospectus and have received a favourable advance ruling from the ministère du Revenu before the receipt for the final prospectus is issued.

To further promote the creation of QSSP investment funds, amendments will be made to authorize the eligibility under a QSSP of securities issued by an investment fund when such securities are covered by an exemption from filing a prospectus. The ministère du Revenu will have to issue a favourable advance ruling on the securities prior to the granting of the exemption. In addition, the commitments a QSSP investment fund must make, which must be stated in the final prospectus for the issue of the securities, will, for an issue arising from an exemption from filing a prospectus, have to be stated in the application for exemption from filing.

This amendment will apply to exemptions from filing a prospectus granted after the day of the Budget Speech.

Tax credit to promote permanent capitalization resulting from the merger of caisses d'établissement

One of the government's objectives is to promote permanent capitalization of Québec businesses. The principal means for achieving this objective is through tax incentives such as the ones available under the Québec Stock Savings Plan, the Québec Business Investment Companies program and the Fonds de solidarité des travailleurs du Québec (FTQ).

The Caisse d'établissement and Société d'entraide économique movements have indicated their intention to merge. This would enable them to reinforce their financial stability by increasing their competitiveness.

20 % tax credit

To promote the creation of permanent capital, a refundable tax credit will be introduced for the permanent capital arising from this merger. This tax credit will equal 20 % of the cost of permanent securities resulting from the conversion of shares issued to date by a caisse d'établissement. The refundable tax credit may be claimed for the taxation year during which permanent securities may be obtained. In addition, the tax credit will not affect the adjusted cost of these securities. Finally, the tax credit will be granted only if no other tax benefit is associated with such security. Details of this measure will be made public when the proposed merger takes place.

Fonds de solidarité des travailleurs du Québec (FTQ)

An individual purchasing class A shares of the Fonds de solidarité des travailleurs du Québec (FTQ), as the initial purchaser of such shares, is entitled to a tax credit equal to 20 % of his investment. Under existing rules, these shares may only be redeemed by the fund as specifically provided in its act of incorporation or purchased by agreement by the fund only in situations provided for by a policy adopted by the fund's board of directors and approved by the Minister of Finance. However, when the fund effects such redemptions by agreement after March 1, 1988, it must pay the Minister of Revenue a penalty of 20 % of the amount paid by the initial purchaser for the share thus purchased by agreement.

These rules are being amended. First, the policy on purchase by agreement for class A shares of the fund, approved until June 1, 1988, is again approved by the Minister of Finance for an indefinite period.

Fund purchases by agreement

Second, the fund may, during a fiscal year, make certain purchases of shares in accordance with its policy of purchase by agreement approved by the Minister of Finance, without penalty, for a total cost of not more than 2 % of corporate paid-up capital relating to the shares which are part of the fund's permanent capitalization. However, the penalty will continue to apply to purchases in excess of this cost. This measure has been effective since March 2, 1988.

Third, changes will be introduced so that the penalty does not apply when the fund redeems any of its shares within two years of their issue in the following circumstances :

- at the request of the person who acquired the securities directly from the fund if this person is 65 or if, after reaching 60, the person has opted for retirement or early retirement; or

- at the request of a person holding shares of the fund but who did not acquire them directly from the fund, if the person who acquired them from the fund is 65 or would have reached that age if he were still living.

However, to continue to ensure that such redemptions will not be made as part of transactions whose sole purpose is to obtain the tax credit, with no increase in the permanent capital of the fund, the Act to establish the Fonds de solidarité des travailleurs du Québec (FTQ) will be amended to provide that a shareholder may not demand the redemption of his shares in such circumstances until a period of at least two years has expired since they were issued.

The last two measures apply to every redemption made after the date the bill amending the Act to establish the Fonds de solidarité des travailleurs du Québec (FTQ) is assented to, giving effect to the amendment put forward in the preceding paragraph.

Finally, with a view to simplification, the adjusted cost of fund shares which a taxpayer deducts in a year will, starting in taxation year 1988, no longer reduce his eligible deductions for the QSSP and CIP.

Impact of measures designed to promote strategic economic investments

On the balance among various strategic investments

The fiscal measures introduced concerning strategic economic investments will improve the balance of tax benefits so that they correspond more closely to the risk element of each.

The increase in overall deductions for Québec film production and research and development will significantly reduce the break-even point for such investments.

The net after-tax cost of an investment of $ 100 in a Québec film production will decline from $ 55.21 to $ 47.21, and its break-even point will fall from $ 69.88 to $ 57.98, when the investor has reached the $ 100 000 lifetime capital gains exemption ceiling.

Furthermore, the net after-tax cost of a $ 100 investment in a research and development project in a business will fall from $ 76.00 to $ 64.00, while the break-even point will drop from $ 64.33 to $ 46.49, when the investor has reached the $ 100 000 lifetime capital gains exemption ceiling, and the research and development expenditure consists entirely of wages.

The break-even points for an investment of $ 100 in Québec film productions or in research and development, $ 57.98 and $ 46.49 respectively, will from now on be substantially below the break-even point for a $ 100 investment in a developing corporation qualifying under the QSSP, which is $ 64.33.

COMPARISON OF TAX BENEFITS GRANTED FOR A $ 100 INVESTMENT IN VARIOUS VEHICLES 1989 TAXATION YEAR

	Québec	Net cost	Break-even point	
			ECGE	NECGE
	%	$	$	$
Present situation				
Resource exploration	133 1/3	38.74	63.27	57.57
Québec film production	133 1/3	55.21	80.00	69.88
Québec Stock Savings Plan				
• Developing corporation	100	76.00	76.00	64.33
• Medium-sized corporation	75	82.00	82.00	73.25
• Large corporation	50	88.00	88.00	82.16
Québec Business Investment Company	100	76.00	76.00	64.33
Cooperative Investment Plan	100	76.00	76.00	64.33
QSSP / R & D	100	76.00	76.00	64.33
Situation after the Budget Speech				
Resource exploration	133 1/3	38.74	63.27	57.57
Québec film production	166 2/3	47.21	60.00	57.98
Québec Stock Savings Plan				
• Developing corporation	100	76.00	76.00	64.33
• Medium-sized corporation	75	82.00	82.00	73.25
• Large corporation	50	88.00	88.00	82.16
Québec Business Investment Company	100	76.00	76.00	64.33
Cooperative Investment Plan	100	76.00	76.00	64.33
QSSP / R & D (basic rate of 100 %)				
• Additional deduction of 50 %				
– 50% in wages	125	70.00	70.00	55.41
– 100% in wages	150	64.00	64.00	46.49
• Additional deduction of 100 %	200	52.00	52.00	28.65

Note: The capital gains inclusion rate is 66 2/3 %.
ECGE: Eligible for capital gains exemption.
NECGE: Not eligible for capital gains exemption.

On the tax burden

The package of measures designed to promote strategic economic investments will reduce the tax burden on Québec taxpayers by almost $ 36 000 000 over a full year.

GAIN FOR TAXPAYERS UNDER THE MEASURES CONCERNING STRATEGIC ECONOMIC INVESTMENTS
(In millions of dollars)

	Full taxation year	
	1988	1989
Impact assuming no change in behaviour measures		
Increase to 66 2/3 % of the additional deduction for Québec film production	4	5
Improvements in the Québec Stock Savings Plan	19	26
Provision for the impact of the measures on the behaviour of taxpayers	5	5
Total impact on taxpayers' tax burden	28	36

Note: A positive figure indicates a gain for taxpayers.

On the government's financial framework

The fiscal measures designed to promote strategic economic investments will cost an additional $ 39 000 000 in 1989-1990.

IMPACT OF MEASURES CONCERNING STRATEGIC ECONOMIC INVESTMENTS ON THE FINANCIAL FRAMEWORK OF THE GOVERNMENT
(In millions of dollars)

	Fiscal year		
	1988-1989	1989-1990	1990-1991
Impact assuming no change in behaviour measures			
Increase to 66 2/3 % of the additional deduction for Québec film production	—	- 5	- 5
Improvements in the Québec Stock Savings Plan	—	- 27	- 29
Provision for the impact of the measures on the behaviour of taxpayers	—	- 7	- 5
Total impact on the government's financial framework	—	- 39	- 39

Note: A negative sign indicates a cost for the government.

2.2 Improvements to the business tax system

Apart from the harmonization measures announced in the December 18, 1987 Minister's Statement, the federal tax reform has created a favourable climate for a reexamination of Québec's business tax system. This system must strike a balance between a sufficient contribution from business to finance public expenditures and the maintenance of a competitive tax system that will encourage businesses to move to and invest in Québec, in order to promote economic growth and job creation. In addition, this second objective is becoming more important in view of freer trade, which will allow more Québec companies to compete more directly with foreign companies.

In this context, the measures announced today to promote economic growth and job creation are designed to achieve three major objectives :

- maintaining a competitive tax system while ensuring that business contributes adequately to financing public expenditures;
- encouraging investment; and
- stimulating research and development.

Maintaining a specific, competitive tax system for Québec business

Since 1981, Québec has had a business tax system which differs appreciably from the system in effect in other provinces where the main business contribution to financing public expenditures is the tax on profits.

In Québec, business taxation is based on the principle of an equivalent tax rate applying to payroll, return on capital and profits. One result of such a structure is that employer contributions to the health services fund, levied against payroll, and the tax on capital generate, for the Québec government, revenue five times greater than the tax on profits.

An analysis of Québec's tax system reveals several advantages in relation to the systems in other provinces :

- under Québec's system, businesses make a satisfactory contribution to the financing of public expenditures while enjoying a competitive position compared to businesses outside Québec;
- in general, it promotes a better distribution of the tax burden among businesses in various industries, thus encouraging a more effective allocation of resources;
- the low tax rates on profits, in spite of higher fixed charges in Québec, produce higher after-tax returns for profitable companies and investments;
- Québec's tax system generally ensures that each business makes a minimum contribution to the financing of public expenditures, limits tax avoidance and generates a more stable and more predictable source of revenue; and
- the refundable tax credit mechanism for losses and the three-year tax holiday for new businesses alleviate the disadvantage of fixed charges for such businesses.

For all these reasons, the basic features of the existing tax system have been maintained and business tax rates will remain unchanged. Moreover, the low tax rates in Québec will minimize the impact of harmonization with the federal tax reform announced in the December 18, 1987 Minister's Statement. But for the measures introduced today, harmonization with the federal measures would, when fully implemented, have increased the Québec government's revenue by almost $ 100 000 000.

Measures to promote private investment in Québec

An effect of the federal tax reform is a significant increase in the tax burden of many corporations. In addition, the new federal measures concerning the depreciation deduction, with which, as announced last December, Québec's tax legislation will be harmonized, will cost manufacturing businesses in Québec and in the rest of Canada the comparative advantage they once enjoyed in this regard over US corporations. Indeed, the 50 % straight-line depreciation rate applicable to assets acquired for manufacturing and processing purposes will be gradually replaced with a 25 % declining balance rate.

Given the context of trade internationalization, particularly with the United States, it is imperative to encourage the modernization of Québec's businesses to increase our economy's competitiveness and expand investment in Québec to ensure sustained growth in employment.

Deductions for certain investments in Québec

— ***100 % depreciation rate***

Manufacturing and processing

To maintain the competitive position of Québec firms compared to US corporations, businesses will from now on enjoy a 100 % deduction of the capital cost of new assets used in Québec for manufacturing and processing of goods.

New technologies

Furthermore, to promote the introduction of new technologies in Québec businesses, the 100 % depreciation deduction will also be granted for certain other new assets, such as computers and other information processing equipment.

— ***Adjustment to depreciation allocated to Québec***

The existing distribution mechanism for taxable income among the provinces is such that the value of Québec's new 100 % depreciation deduction will not be as great for companies also doing business outside Québec. In fact, the value of the deduction will be proportional to the percentage of business such companies do in Québec; for example, a company which does 10 % of its business in Québec will in fact obtain a deduction of only 10 % of its investment in Québec, even if the asset is depreciable at 100 %.

Additional deduction for new investment in Québec

In addition, to afford fair treatment to all businesses investing in Québec, an adjustment to depreciation allocated to Québec, in the form of a further deduction, will be granted for these investments proportionate to business carried on outside Québec. This deduction will make up the difference between, on the one hand, the 100 % depreciation granted in Québec and, on the other, the net present value of depreciation deductions granted outside Québec, that is, about 65 % of the value of such investments.

Consequently, this additional deduction will equal 35 % of the depreciation claimed in the year by the company for assets which entitle the claimant to the 100 % depreciation deduction, multiplied by the proportion of business done outside Québec during the same year.

For instance, a company which does 50 % of its business in Québec may claim $ 50 in Québec for the 100 % depreciation deduction for an eligible investment of $ 100. In addition, under the rules established above, this company will be entitled to an adjustment of $ 17.50, bringing its total deduction in Québec to $ 67.50. Since the company may claim deductions outside Québec with a net present value of $ 32.50, the net present value of all deductions for this eligible investment made in Québec will reach $ 100. Furthermore, the same result is obtained regardless of the percentage of the company's business done in Québec.

Thus, any eligible investment in Québec by a company will receive the same preferred tax treatment, regardless of what proportion of the company's business is done in Québec.

DEDUCTION GRANTED IN QUÉBEC AND NET PRESENT VALUE OF TOTAL DEDUCTIONS, ACCORDING TO THE PERCENTAGE OF BUSINESS IN QUÉBEC (FOR AN ELIGIBLE INVESTMENT OF $ 100 IN QUÉBEC) (In dollars)

	Percentage of business in Québec				
	100	75	50	25	0
Deductions granted in Québec[1]					
Depreciation of 100 %					
— in the calculation of total revenue	100.00	100.00	100.00	100.00	100.00
— taking account of the percentage of business in Québec	100.00	75.00	50.00	25.00	0.00
Adjustment of the depreciation granted in Québec	0	8.75	17.50	26.25	35.00
Total deduction taking account of the percentage of business in Québec	**100.00**	**83.75**	**67.50**	**51.25**	**35.00**
Net present value of the deductions granted outside Québec[2]					
— on the basis of total revenue	65.00	65.00	65.00	65.00	65.00
— taking account of the percentage of business outside Québec	0	16.25	32.50	48.75	65.00
Value of all deductions	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

1 All the Québec deductions are granted for the year of acquisition of the assets.

2 Using a discount rate of 11.5 %.

— ***Details of application***

Assets eligible for the 100 % depreciation deduction and the additional, non-taxable 35 % deduction will be included in a new asset class. This class consists of assets which would otherwise be included in class 39, that is, manufacturing and processing machinery and equipment. This new class also includes certain assets in class 10, such as universal electronic information processing equipment and the associated systems software, including accessory information processing equipment as well as general computer systems supplies and computer-assisted design and manufacturing (CAD — CAM) hardware.

These deductions will apply starting in the year the eligible assets are acquired; the half-year rule will not apply. In addition, the new measures concerning the time of acquisition of a capital asset will not apply to such assets.

Furthermore, amendments will be introduced to ensure that the additional deduction is not computed on the basis of the interprovincial income distribution formula. Québec's tax legislation will also be amended so that the deduction claimed is taken into account for purposes of calculating the recapture of depreciation or terminal loss when eligible assets are disposed of.

Finally, these measures apply to eligible assets acquired after the day of the Budget Speech, which have not been used for any purpose whatever before they are acquired and which will be used in Québec within a reasonable period following their acquisition. In addition, these assets will have to be used in Québec for a minimum of two years after the year of their acquisition. Should this not be the case, the assets will be deemed never to have been included in the new class.

Increase in the refundable tax credit for losses

Increase from 3.0 % to 3.2175 %

To better integrate the elements of Québec's tax system, to take into account the 7.25 % surtax introduced in 1986, the tax credit for losses is increased by the value of such surtax in regard to taxation years ending after the day of the Budget Speech. The applicable rate has therefore been raised from 3.0 % to 3.2175 %. For taxation years overlapping the day of the Budget Speech, the increase in the value of this credit will also apply in full.

Special tax on oil refining corporations

— ***Gradual elimination of the tax***

At present, any corporation refining oil in Québec, and any corporation refining oil outside Québec and selling oil or fuel in Québec, must pay, in addition to the general tax of 0.45 % of the corporation's paid-up capital, a further tax of 1 % of its paid-up capital.

Annual reduction of 0.2 % for five years

Québec is the only province to levy this tax, which reduces the return on investments in this industry. For this reason, to maintain Québec's refining capacity and to encourage the development of this industry and related sectors, the special tax on oil refining corporations will be gradually eliminated over a period of five years. Thus, the rate of the tax will be reduced by 0.2 percentage point per year beginning January 1, 1989. These reductions will apply to corporate taxation years beginning after December 31, 1988. Consequently, the tax will be completely eliminated for corporate taxation years beginning after December 31, 1992.

— ***Deduction for new investments***

50 % of the cost of the investment

In addition, to immediately stimulate investment in Québec with a view to improving existing facilities and the construction of new plants for the production of the specific new feedstocks required to produce unleaded gasoline, corporations investing in such improvements or construction in Québec will be able to deduct, from the special tax on oil refining corporations, an amount equal to 50 % of the cost of such investments, up to half the special tax otherwise payable for the year.

In addition, any portion of the deduction which cannot be used during the year in which the expenses are incurred may be deducted from the special tax otherwise payable during the following three years, subject to the same limits. Finally, the cost of such new investments will reduce paid-up capital for the purposes of such tax.

The criteria used to decide whether an improvement to existing facilities or a new plant qualifies for these measures will be made public by the ministère de l'Énergie et des Ressources within the next few weeks and will be incorporated into the tax regulations.

This additional relief will apply to investments to improve existing facilities or build new plants made after the day of the Budget Speech.

Measures to stimulate research and development

The 1987-1988 Budget Speech introduced several fiscal and budgetary measures to stimulate research and development in Québec. The various parties involved in this sector have responded very positively to the approach put forward.

However, recent decisions by the federal government concerning the financing of research and development through limited partnerships have rendered Québec's measures in this regard inoperative. Therefore, new measures applying only in Québec will be introduced to continue to ensure that venture capital can be raised to finance research and development in Québec through outside financing by private investors. These new measures will replace the existing ones.

Furthermore, additional measures are being introduced with a view to continued improvement of tax incentives for research and development. They will be of particular benefit to small and medium-sized businesses and will encourage pre-competitive research and research in universities and related institutions.

Financing for research and development

—Additional deductions for QSSP/R&D and QBIC/R&D

Since Canada's tax system does not entitle passive investors to enjoy tax benefits related to scientific research and experimental development, a new mode of external financing is being introduced to replace limited partnerships.

– *Operation*

The new measures are designed to match the Québec Stock Savings Plan and Québec Business Investment Company financing vehicles with scientific research and experimental development activities.

Additional deductions of 50 % and 100 % for R & D

Henceforth, an additional 50 % or 100 % deduction will be available to shareholders of a corporation which carries out a share issue under the Québec Stock Savings Plan, or of a Québec Business Investment Company which makes an eligible investment, provided the avowed use of the greater part of the proceeds of the share issue is to finance scientific research and experimental development in Québec.

For this purpose, corporations will have to agree to forego Québec refundable tax credits on those expenditures for which an additional deduction may be claimed by the shareholders.

Transfer of the value of tax credits

In short, the effect of the new mechanism is to transfer to a corporation's shareholders, in the form of a deduction, the value of Québec tax credits granted to corporations in respect of their scientific research and experimental development expenditures. Since this deduction will only be granted when such expenditures have been made, the mechanism must allow establishment of a link between the shareholders, the corporation which will benefit from the tax credit and the scientific research and experimental development expenditure incurred in Québec.

Moreover, the existing rules governing the Québec Stock Savings Plan and Québec Business Investment Companies will generally be applicable, subject to adaptations and amendments required for purposes of the additional deductions. Thus, for example, the additional deductions will not be included in taxpayers' Québec Stock Savings Plan accounts. Therefore, they do not affect the adjusted cost of a share qualifying for purposes of the plan and will not affect coverage. In addition, they are not subject to the limits applicable to such plans and will enable shareholders to benefit from the deduction for strategic economic investments. Furthermore, they will only accrue to the first purchaser of a qualifying share to which is attached a share issue for financing scientific research and experimental development. Other amendments may be introduced to better reflect the specific character of research and development.

– *Characteristics of corporations*

Where the financing is carried out through the Québec Stock Savings Plan, the assets of the issuing corporation must be less than $ 250 000 000 for entitlement to the additional deductions. Furthermore, the greater part of the proceeds of the share issue must be used to finance the scientific research and experimental development activities of a designated corporation. This last condition must also be satisfied in the case of financing carried out through a Québec Business Investment Company.

A "designated corporation" is a corporation which is eligible either for the 20 % or the 40 % refundable tax credit on wages or the 40 % refundable tax credit on total expenditures.

– *Rates of additional deductions*

The shareholders of a corporation qualifying for the Québec Stock Savings Plan or of a Québec Business Investment Company will be entitled to an additional deduction for scientific research and experimental development expenditures made in Québec by a designated corporation.

The additional deduction will be 50 % of wage expenditures in cases where the corporation would have been entitled to the 20 % tax credit for wages, and 100 % of wage expenditures where it could have claimed the 40 % tax credit for wages. In the case of a corporation which would have been entitled to a tax credit of 40 % of total expenditures, the additional deduction will be 100 % of total expenditures.

Furthermore, among other administrative details, the additional deduction will only be granted when an auditor of the designated corporation certifies that the research and development expenditures were incurred, and the shareholder will have to submit a prescribed form indicating the amount of the deduction he is entitled to.

In addition, in no case may the amount of the additional deduction granted for scientific research and experimental development bring the total deductions for a security to more than 200 %.

– *Penalties*

In the same way as for the financing of research and development through limited partnerships, the designated corporation, including, in the case of a designated private corporation, the directors of such corporation, will have to agree to pay back the value of the tax benefit obtained by the shareholder if it is determined, after an audit, that the research expenditures incurred do not constitute scientific research and experimental development expenditures.

The penalty equals 10 % of the research and development expenditure that does not qualify within the meaning of Québec's tax legislation and in regard to which the shareholder claims an additional tax deduction of 50 % for wages, and 25 % of such expenditure in regard to which the shareholder claims an additional deduction of 100 % of wages or 100 % of total expenditures.

In addition, when penalties are applied, they may not be reduced even if the expenditures could have qualified for deduction by the designated corporation in other ways. The ministère du Revenu will ensure that all persons against whom penalties may be levied are well informed.

– *Advance rulings*

Finally, shareholders may only claim the additional deductions after having obtained a favourable advance ruling from the ministère du Revenu. The advance ruling will be provided to confirm, among other matters, the eligibility of corporations, the amount of deductions to which shareholders will be entitled and that the greater part of funds collected are to be used to finance research and development. However, the decision will be made subject to the qualification of the research activities and the eligibility of the expenditures.

– *Effective dates*

For research and development being financed through the Québec Stock Savings Plan, these measures will apply to financing of this kind by any corporation which carries out a public issue of shares qualifying for the Québec Stock Savings Plan and which begins after the day of the Budget Speech, that is, to any share issue for which the receipt of the final prospectus or exemption from filing is granted after the day of the Budget Speech.

Moreover, if financing of this kind is carried out through a Québec Business Investment Company, these measures will apply to financing of this kind made after the day of the Budget Speech for any eligible investment made thereafter.

Finally, the additional deductions will be granted for scientific research and experimental development expenditures made in Québec after the day of the Budget Speech.

— ***Repeal of existing measures***

The specific measures introduced since the Budget Speech of April 30, 1987 to facilitate raising venture capital to finance research and development in Québec, including the additional deductions of 33 1/3 % and 66 2/3 % granted to individuals, in particular to members of limited partnerships, have been repealed and replaced by the measures concerning passive investors contained in the Draft Legislation, Regulations and Explanatory Notes Respecting Preferred Share Financing, published by the federal government on April 13, 1988 which will be integrated into Québec's reform.

These provisions will apply starting on the day following the Budget Speech.

However, Québec's measures will continue to apply to scientific research and experimental development expenditures incurred after the day of the Budget Speech, but only from amounts collected no later than that day.

For purposes of determining if the amounts collected were collected no later than the date of the Budget Speech, the only amounts considered will be those represented by amounts obtained either under a final prospectus for which the receipt is obtained no later than such date, or obtained afterwards but no later than June 30, 1988 if the receipt for the preliminary prospectus was granted no later than the date of the Budget Speech, or by virtue of a distribution circular filed or a statement of registration produced no later than such date. In addition, only those amounts mentioned in the prospectus or in the distribution circular or statement of registration on the date of the Budget Speech will be considered amounts collected as of such date. However, an amount may also be considered to have been collected by the date of the Budget Speech, even if it is only collected afterward though no later than June 30, 1988, if it is used for a qualifying research and development expenditure under a written contract signed prior to the date of the Budget Speech.

Research and development activities of small and medium-sized businesses

— ***Increase in the tax credit for wages from 20 % to 40 %***

Currently, corporations carrying on business in Canada are entitled to a refundable tax credit of 20 % on the wages they pay in Québec in respect of scientific research and experimental development expenditures they incur in businesses in Québec.

Increased credit for small and medium-sized business

To take better account of the risks inherent in the research and development activities of small and medium-sized businesses, and to reduce their outside financing requirements, the rate of the refundable tax credit for wages will be raised to 40 % for the first $ 2 000 000 in annual wages paid in Québec for Canadian-controlled private corporations.

For this purpose, a Canadian-controlled private corporation is such a corporation within the meaning of Québec's tax legislation if its assets are less than $ 25 000 000 or net shareholders' equity no more than $ 10 000 000. The definitions of assets and net equity are those used for the purposes of the eligibility of an eligible corporation in which a Québec Business Investment Company may make an investment. In addition, the rules concerning associated corporations will be applied for purposes of determining the expenditure limit of such a corporation.

This measure applies to wages paid in Québec after the day of the Budget Speech for scientific research and experimental development expenditures incurred in Québec after such date.

— ***Research carried out through linkage agencies***

Many businesses, especially small and medium-sized businesses, turn to certain agencies to manage and carry out their research projects. To facilitate the application of tax measures and promote the creation of links between small and medium-sized businesses and the universities, linkage agencies may be prescribed. Such agencies could act as a focal point for these businesses.

Henceforth, scientific research and experimental development expenditures made by an eligible university entity under a university research contract reached with a prescribed linkage agency, on behalf of a business, will be eligible, for the refundable tax credit of 40 % of the total of such expenditures, for such business.

CRIQ first linkage agency

For this purpose, the first prescribed linkage agency is the Centre de recherche industrielle du Québec (CRIQ).

Pre-competitive research carried out within a consortium

The risk associated with scientific research and experimental development is an element in both the results obtained and the commercial applications which may eventually be derived. For this reason, it may be advantageous for businesses within the same industry to combine their efforts to carry out certain so-called "pre-competitive" research projects. This may help reduce the risk and maximize the likelihood of developing commercial applications.

40 % tax credit

To promote the creation of pre-competitive industrial research consortia in Québec, the refundable tax credit has been raised to 40 % and may be claimed against the entire amount of scientific research and experimental development expenditures in respect of such expenditures incurred in Québec as part of a pre-competitive research project.

The pre-competitive research in question includes, in particular, cooperative industrial research without an immediate commercial objective for the participating businesses. It may be carried out either jointly with the universities or solely with the participation of businesses.

For the purposes of this 40 % tax credit, the so-called "pre-competitive" research project must have received the approval of the Minister of External Trade and Technological Development.

This measure applies to a pre-competitive research project for which the Minister of External Trade and Technological Development has issued a receipt during the period from the day of the Budget Speech to January 1, 1991, for scientific research and experimental development expenditures incurred as part of such a project carried out in Québec no later than December 31, 1992.

Research in universities and related institutions

Currently, an eligible university entity is defined as either a university researcher, a team of university researchers, a university or a prescribed organization. To ensure that the tax measures designed to intensify cooperation between universities and business reflect the practices of the university world, the definition of an eligible university entity will from now on be restricted to universities and any other prescribed organization.

Businesses which have signed a university research contract with a university researcher or team of university researchers prior to the day after the Budget Speech may continue to claim the 40 % tax credit or the additional deduction of 66 2/3 % for scientific research and experimental development expenditures associated with such contract, provided the expenditures were incurred under such a contract.

Canadian Centre for Automation and Robotics in Mining (CCARM) recognized

The Canadian Centre for Automation and Robotics in Mining (CCARM) has been recognized as the second eligible university entity, the first being the Centre de recherche informatique de Montréal (CRIM).

Finally, since December 18, 1987, a favourable advance ruling has been required from the ministère du Revenu for any university research contract signed after that date. To facilitate the implementation of this measure, a transitional period is provided for the submission of requests for advance rulings concerning any university research contract signed between December 18, 1987 and the day of the Budget Speech. Such a request may entitle businesses which were unable to meet the advance ruling requirement to the refundable tax credit of 40 % or the additional deduction of 66 2/3 %, provided the request is submitted prior to January 1, 1989.

Other measures

— ***Research conducted by individuals***

Scientific research and experimental development expenditures incurred in Québec after the day of the Budget Speech by individuals, those directly operating a business in Canada, for example, will be granted the same tax treatment as large businesses. The additional deductions of 33 1/3 % and 66 2/3 % are also repealed in their regard.

However, individuals who may be involved in research and development projects on the date of the Budget Speech may claim either these additional deductions or Québec refundable tax credits for 1988.

— ***Technical amendment***

A technical amendment will be introduced into Québec's tax legislation to ensure that the refundable tax credit for wages is also granted to businesses which carry out scientific research and experimental development in Québec on behalf of a taxpayer who is not a resident of Canada and does not carry on business in Canada.

Impact of fiscal measures

On the competitiveness of Québec's tax system with respect to investments

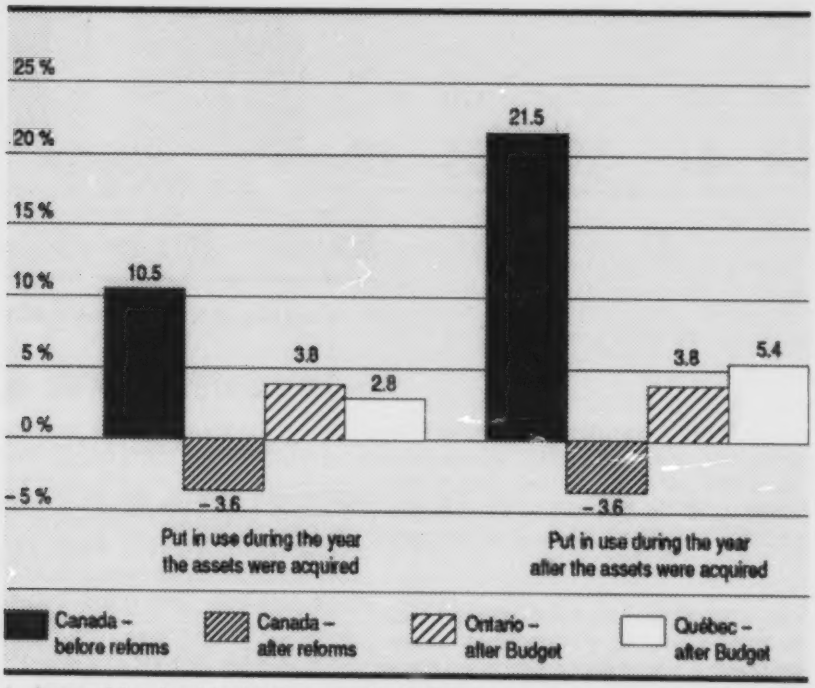
The measures announced with respect to investments in Québec increase the present value of deductions for manufacturing investments in Québec. Prior to the federal reform, businesses in Canada enjoyed an advantage in this respect of 10 % to 22 % compared to businesses in the US. The federal reform has transformed this into a disadvantage of 3.6 %.

Higher deductions in Québec

In spite of Québec's low tax rates, the 100 % depreciation deduction and the additional deduction of 35 % restore a comparative advantage of 3 % to 5 % for investments in Québec, depending on whether the asset is put into use during the year of the investment or the following year. This gap, attributable to the time at which the asset is put into use reflects solely the impact of the federal tax system since the put-in-use rule does not apply to such assets under Québec's tax system.

In the case of computer hardware, the deductions granted will almost totally eliminate the disadvantage of about 5 % in respect of deductions granted facing Québec businesses compared to corporations in the United States.

COMPARISON OF PRESENT VALUE OF THE DEDUCTIONS FOR DEPRECIATION IN 1991
DIFFERENTIAL COMPARED TO THE UNITED STATES[1]
AS A PERCENTAGE
(manufacturing and processing)



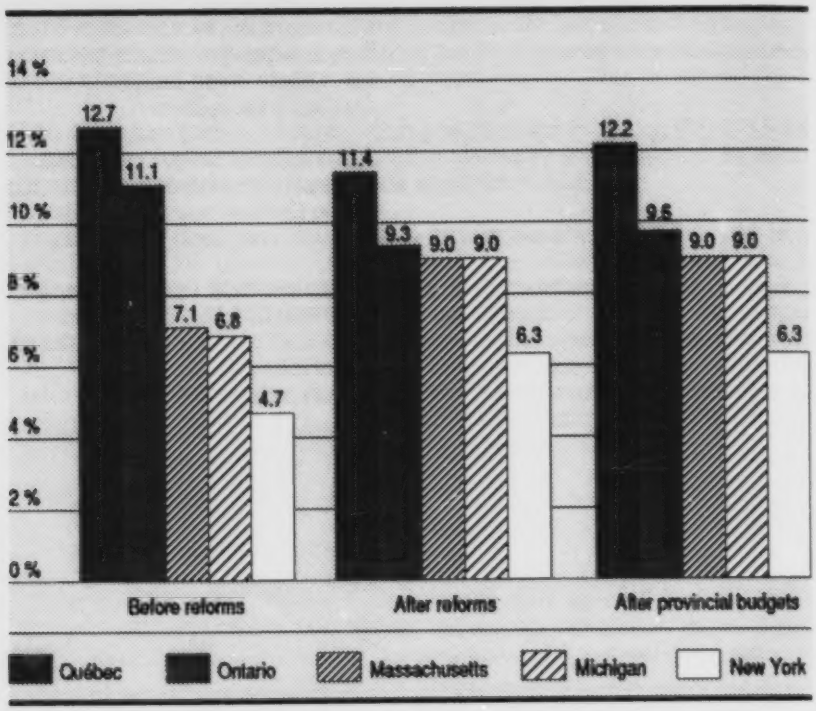
1 Average of the value of the deductions granted by the federal and provincial governments, weighted by the respective tax rate.

Higher rates of return in Québec

Furthermore, a comparative study of taxation in Québec, Ontario and the states of Massachusetts, Michigan and New York shows that after-tax rates of return on investment projects are generally higher under Québec's tax system than in the other jurisdictions studied.

An investment project in the telecommunications equipment manufacturing sector, for example, which would generate an internal rate of return before tax of about 22 %, will now produce after-tax rates of return of 12.2 % in Québec, 9.6 % in Ontario and from 6 % to 9 % in the US states studied. The 100 % depreciation increases the rate of return on such a project by 0.8 percentage point compared to the situation prior to this Budget Speech.

AFTER-TAX INTERNAL RATE OF RETURN ON AN INVESTMENT PROJECT
(large telecommunications equipment manufacturing firm) [1]



1 For firms doing 100 % of their business in each jurisdiction studied.

On the cost of a research and development expenditure

— ***Financing through the QSSP or a QBIC***

Businesses making use of the Québec Stock Savings Plan or a Québec Business Investment Company, whether or not matched with additional deductions for research and development, together with other tax benefits allowed corporations by the federal and Québec governments in respect of these activities, can enjoy substantial assistance from governments. In addition, these methods of financing offer more flexibility to businesses concerning the way in which the value of tax benefits related to research and development is shared with investors.

In the case of university or pre-competitive research, the net cost borne by the private sector accounts for no more than 5 % to 12 % of the total research and development expenditure, taking into account all the deductions available, both to the private investor and to corporations which carry out research and development. This net cost is about equal to or even slightly less than the cost of research and development financed through limited partnerships.

Furthermore, when research and development are carried out in businesses, the net cost to the private sector varies between 6 % and 30 %, depending on the size and status of the business, the type of expenditure and the financing vehicle used.

NET COST TO AN INVESTOR AND A TAXABLE CORPORATION OF A $ 100 EXPENDITURE FOR RESEARCH AND DEVELOPMENT USING VARIOUS TYPES OF OUTSIDE FINANCING
1989 TAXATION YEAR[1]
(in dollars)

	Manufacturing and processing corporation not eligible for SBD						Small and medium-sized businesses eligible for SBD[2]		
	Less than $ 50 million in assets			Assets from $ 50 million to $ 250 million			Financing through QSSP venture capital companies[3]		
	Net cost to investor	Tax benefits for corporation	Private sector net cost	Net cost to investor	Tax benefits for corporation	Private sector net cost	Net cost to investor	Tax benefits for corporation	Private sector net cost
QSSP / R & D									
• University or pre-competitive research	52.00	46.50	5.50	58.00	46.50	11.50	52.00	46.25	5.75
• Research in companies									
— 50 % in wages	70.00	46.50	23.50	76.00	46.50	29.50	64.00	46.25	17.75
— 100 % in wages	64.00	46.50	17.50	70.00	46.50	23.50	52.00	46.25	5.75
QSSP									
• University or pre-competitive research	76.00	70.26	5.74	82.00	70.26	11.74	76.00	69.04	6.96
• Research in companies									
— 50 % in wages	76.00	52.44	23.56	82.00	52.44	29.56	76.00	57.64	18.36
— 100 % in wages	76.00	58.38	17.62	82.00	58.38	23.62	76.00	69.04	6.96

SBD : Small business deduction.

1 Rate in force as of July 1, 1989.

2 Businesses eligible for the 35 % federal tax credit.

3 Also applicable to financing through a QBIC.

— *Without outside financing*

Net cost of R & D investments down significantly

The tax measures introduced in regard to the research and development activities of small and medium-sized businesses will substantially reduce the net cost of such expenditures they incur in their own laboratories. For such businesses, the net cost of a $ 100 expenditure of this sort which consists entirely of wages will be $ 30.96, compared to $ 42.36 under the existing system.

Moreover, the net cost to large manufacturing companies participating in a pre-competitive industrial research consortium and incurring an expenditure of $ 100 of which 50 % consists of wages will fall from $ 47.56 for such research carried out in their own laboratories to $ 29.74.

NET COST TO A TAXABLE CORPORATION OF A $ 100 WAGE EXPENDITURE FOR RESEARCH AND DEVELOPMENT [1] 1989 TAXATION YEAR [2] (In dollars)

	Small and medium-sized businesses eligible for SBD [3]	Company not eligible for SBD	
		Manufacturing	Other sectors
Research in the company [4]			
• present system	42.36	41.62	39.64
• new system	30.96	41.62	39.64
Pre-competitive research			
• present system	42.36	41.62	39.64
• new system	30.96	29.74	28.26
Research in universities and related institutions	30.96	29.74	28.26

SBD : Small business deduction

1 Corporation whose profits are sufficient to render inoperative the new ceilings of the federal government on the investment tax credit.

2 Rate in force as of July 1, 1989.

3 Businesses eligible for the 35 % federal tax credit.

4 Contributions to the health services fund are not taken into account in the $ 100 wage expenditure.

NET COST TO A TAXABLE CORPORATION OF A $ 100 EXPENDITURE FOR RESEARCH AND DEVELOPMENT OF WHICH 50 % IS FOR WAGES [1] 1989 TAXATION YEAR [2] (In dollars)

	Small and medium-sized businesses eligible for SBD [3]	Company not eligible for SBD	
		Manufacturing	Other sectors
Research in the company			
• present system	48.05	47.56	45.34
• new system	42.36	47.56	45.34
Pre-competitive research			
• present system	48.05	47.56	45.34
• new system	30.96	29.74	28.26
Research in universities and related institutions	30.96	29.74	28.26

SBD : Small business deduction

1 Corporation whose profits are sufficient to render inoperative the new ceilings of the federal government on the investment tax credit.

2 Rate in force as of July 1, 1989.

3 Businesses eligible for the 35 % federal tax credit.

On government assistance for research and development

$ 1 824 000 000 over five years

The Québec government's contribution to research and development over the next five years will be substantial. The amounts planned for this purpose total $ 1 824 000 000. Based on a compilation by the ministère du Commerce extérieur et du Développement technologique of research and development spending programs the cost of programs and measures implemented prior to 1987 plus the fiscal measures in effect prior to 1987, will amount to $ 1 308 000 000 over the next five years.

Furthermore, the initiatives undertaken in this regard over the past two years total $ 516 000 000, an increase of close to 40 %. It is particularly worth noting the increase in the tax credit for wages from 10 % to 40 % for small and medium-sized businesses and to 20 % for other businesses; the introduction of a 40 % tax credit on total expenditures for university and pre-competitive research; the non-taxation of tax credits; and the replacement of limited partnerships by QSSP/R&D and QBIC/R&D to finance such activities.

CONTRIBUTION OF THE GOUVERNEMENT DU QUÉBEC TO RESEARCH AND DEVELOPMENT
(in millions of dollars)

	1988-1989	1989-1990	1990-1991	1991-1992	1992-1993	Next five years
Programs and measures in force before 1987	254	258	261	265	270	1 308
New initiatives [1]	87	97	108	109	115	516
Total government assistance	341	355	369	374	385	1 824

Note: According to data produced by the ministère du Commerce extérieur et du Développement technologique on the cost of programs, and by the ministère des Finances on the cost of measures.

1 Measures announced since the 1987-1988 Budget Speech.

On the tax burden on business

The measures announced today to promote investment and research and development will reduce the tax burden on business by $ 47 000 000 in taxation year 1988 and by $ 104 000 000 in 1989. There is therefore a net reduction of the tax burden, in respect of the Québec tax system, compared to the situation prior to the federal tax reform.

GAIN FOR BUSINESSES UNDER BUSINESS TAX MEASURES
(in millions of dollars)

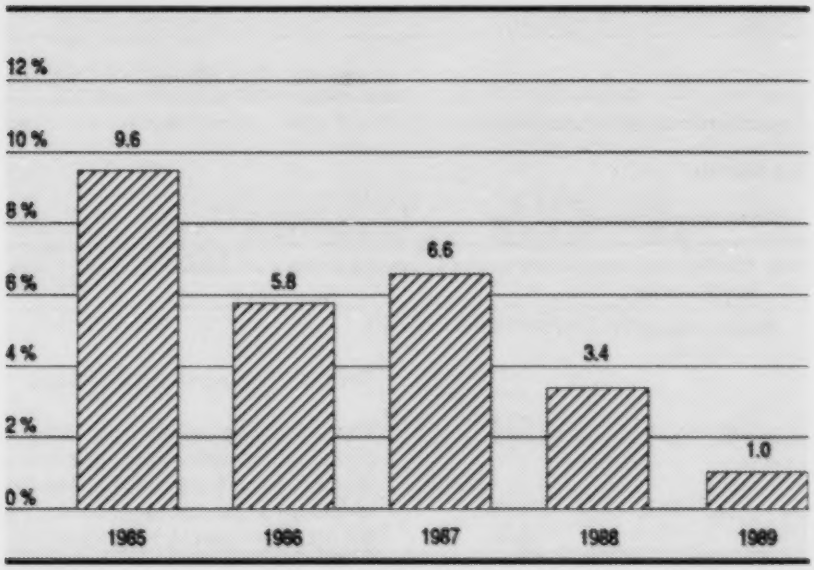
	Taxation years	
	1988	1989
Measures promoting investment		
— deductions for investments in Québec	40	73
— gradual elimination of the special tax on oil refining corporations	5	14
Research and development	2	17
Total	47	104

The overall tax burden of businesses in Québec includes all own-source revenue collected by the provincial and municipal governments in Québec. It therefore includes, not only the tax on profits, the tax on capital and the employer contribution to the health services fund, but also consumption taxes, local taxes and duties from fees. The relative tax burden is computed by applying Ontario's tax structure to businesses in Québec and comparing the results with the tax burden in Québec.

Reduction of the tax burden on business

The last assessment of the tax burden differential borne by taxpayers in Québec was carried out in September 1987. It showed that, for businesses, the differential had narrowed substantially between 1985 and 1987, falling from 9.6 % to 6.6 %. In addition, the measures introduced today, together with the provisions of the 1988-1989 Ontario Budget and the harmonization of tax legislation in Québec and Ontario with the federal tax reform, will reduce this tax burden differential even further, to barely 1 % in 1989.

SUPPLEMENTARY TAX BURDEN OF BUSINESSES
COMPARISON BETWEEN QUÉBEC AND ONTARIO
1985 to1989
(as a percentage)



On the government's financial framework

The measures to improve the business tax system will cost $ 50 000 000 in 1988-1989 and $ 112 000 000 in 1989-1990.

FINANCIAL IMPACT OF THE MEASURES TO PROMOTE INVESTMENT AND RESEARCH AND DEVELOPMENT (in millions of dollars)

	1988-1989	1989-1990	1990-1991
Measures to promote investment			
— deductions for investment in Québec	- 40	- 84	- 80
— gradual elimination of the special tax on oil refining corporations	- 9	- 15	- 19
Research and development	- 1	- 13	- 17
Total	**- 50**	**- 112**	**- 116**

Note : A negative sign indicates a cost for the government.

3. Public investment and regional vitality

It is difficult to imagine continued vigorous economic growth in Québec without the active participation of all regions. Regional forces must be supported by a policy of public and private investment conducive to extending to the peripheral regions the same economic prosperity which comes more easily to central Québec.

In keeping with the goal of distributing economic growth throughout Québec, additional funds will be injected into public and community investment programs designed, first and foremost, to meet regional needs and promote regional development. Fiscal measures will also be implemented to support private sector investment in the regions.

Road network investments

In the 1987-1988 Budget Speech, it was announced that $ 200 000 000 would be invested in highway safety measures throughout Québec. This amount was distributed over three years as follows: $ 60 000 000 for 1987-1988, $ 70 000 000 for 1988-1989 and $ 70 000 000 for 1989-1990.

New investment of $ 30 000 000 in 1988-1989

In 1988-1989, investments of $ 30 000 000 will be added to the $ 854 000 000 already tabled in the National Assembly. The impact of these new infrastructure investments, which will be allocated to road construction and maintenance, will be appreciable, in all regions of Québec but especially in the peripheral ones. Additional estimates will be presented to the National Assembly for this purpose.

Waterworks and sewer system

New program

For some years now, the government has provided financial aid programs to enable municipalities to develop waterworks and sewer infrastructures, yet a number of municipalities continue to be plagued by serious water supply and wastewater elimination problems. Consequently, we are introducing the waterworks and sewer system assistance program for municipalities of fewer than 7 500 inhabitants. Eligible for financial assistance under this program are waterworks and sewer system projects, the search for groundwater supplies, leak detection projects and improvements to existing water supply systems. Government contributions to groundwater and leak detection projects and to those for improving existing systems will correspond to 50 % of the allowable cost of the work undertaken. Financial assistance for new water supply and sewage facilities will apply to capital expenditures and be attributed according to municipal property tax assessments.

$ 50 000 000 over 5 years

Some $ 50 000 000 will, therefore, be allocated over a 5-year period. This program, which will help the less affluent municipalities solve their waterworks and sewer system problems, will consolidate the semi-urban fabric and promote regional economic development. In 1988-1989, additional estimates of $ 8 000 000 will be presented to the National Assembly to cover program start-up costs. The other terms and conditions pertaining to the program will be announced in the near future by the Minister of Municipal Affairs.

Five-year forest road program

The forest road subsidy program, which has been in effect since 1979, refunds 50 % of the cost of the forest road construction work carried out by public forest users. Main roads are eligible under this program. Side roads are the responsibility of the industry. Until 1984, this program came under the Canada-Québec Subsidiary Agreement on Forestry Development; however, it is not part of the new subsidiary agreement (1985-1990).

$ 6 000 000 to promote access to forests

The goal of the new forestry plan is to maximize the production potential of public forests. We should, therefore, promote harvesting in mature forests and, consequently, make access to them easier. To do so, a five-year forest road program should be implemented to provide access to mature forests and increase annual production by approximately 30 %.

Over the next five years, $ 56 000 000 will be added to the $ 30 500 000 already provided for under this plan. For 1988-1989, supplementary estimates will total $ 6 000 000.

Regional development assistance

The Minister responsible for Regional Development is preparing to make public a regional development action plan. This plan is currently under study and includes a number of measures designed to promote regional initiatives and entrepreneurship and to stimulate regional private sector investment, while according particular assistance to the least affluent regions.

$ 12 000 000 for regional entrepreneurship

Additional estimates of $ 12 000 000 will be presented to the National Assembly to set up a reserve for initiating the most urgent measures contained in the plan in 1988-1989. These estimates will be added to those allocated to the regional development fund of the Office de planification et de développement du Québec.

Special forestry employment program

500 forestry jobs

Over the coming years, the implementation of the new forestry plan will require increasing private sector investment in forest development and restoration through sylvicultural projects. Specialized workers must be trained in the regions to meet this new demand. Hence, a special forestry employment program is being set up, which will create 500 temporary jobs in the regions in 1988-1989 while providing training for specialized workers.

$ 7 000 000 for forestry employment

Directed primarily at social aid beneficiaries, this special forestry employment program, which will require additional appropriations of $ 7 000 000, including $ 2 000 000 earmarked for Gaspésie, will make it possible to continue and extend the experiment begun in this area in 1987-1988.

Job creation in Gaspésie and the Îles-de-la-Madeleine

$ 6 000 000 for job creation

Gaspésie and the Îles-de-la-Madeleine is the region hardest hit by unemployment. Last year, a special job creation program was implemented. Since pursuing the efforts implemented in 1987 must be considered a priority, additional appropriations of $ 6 000 000 will be allocated to a similar program in 1988-1989. This amount will help create more than 500 jobs in the various maintenance and repair projects along highways and in provincial parks and reserves. Part of this amount will also be used to finance capital expenditures for cultural and community facilities.

Certain specific regions are extended for the purposes of applying the fuel tax

Currently, the fuel tax is reduced by one-third mainly in the Abitibi-Témiscamingue, Saguenay — Lac-Saint-Jean, Côte-Nord, Nouveau-Québec and Gaspésie regions. For these peripheral regions, the reduction represents more than 4.8 ¢ per litre for gasoline.

For certain other regions, the fuel tax reduction equals half that of the peripheral regions. This is true for the county of Rimouski, the northern part of Labelle county and the southern part of Laviolette county.

To help a greater number of regions, beginning at midnight the evening of the Budget Speech, the tax reduction for these specific regions, which is 16.67 %, or 2.4 ¢ per litre for gasoline, will also apply to another one.

Southern part of Pontiac and Gatineau counties

This region covers some of the southern portion of Pontiac and Gatineau counties, as indicated in the Notice of the establishment of the list of electoral divisions published in the *Gazette officielle du Québec* of May 29, 1985. Its boundaries are as follows :

- to the west, the western boundary of Pontiac county and the southeastern boundary of the peripheral region of Pontiac county;
- to the north, the southern boundary of the peripheral regions of Pontiac and Gatineau counties;
- to the east, the western boundary of the specific region of Labelle county and, beginning at a point located in the southwest corner of Labelle county;
- from there, southward following the eastern boundary of Hincks township to the southeast corner of this township;
- then, westward following the southern boundary of Hincks and Aylwin townships;
- then, in a southwesterly direction following the eastern and southern boundaries of Cawood township, to where they meet the eastern boundary of Pontiac county;
- then, northwards following the eastern boundary of Pontiac county to a point located in the southeast corner of Leslie township; and
- from there, westward following the southern boundary of Leslie township and then southward following the eastern boundary of Litchfield township to a point located in the southeast corner of Litchfield township, but excluding the municipality of Portage-du-Fort, which is already covered by the rules governing border regions.

Furthermore, a fuel tax reduction of 8.33 %, or 1.2 ¢ per litre for gasoline, will apply for retailers located less than 10 km from a point of contact with this specific region.

Application

Fuel retailers in this new specific region or bordering it must carry out a complete inventory of the fuel they have on hand at midnight the evening of the Budget Speech. The ministère du Revenu will use a form to collect these data and, if applicable, will remit the amount corresponding to the difference in the fuel tax between the former rate and the new one, taking into account the amount advanced as working capital.

Wholesalers commissioned by the ministère du Revenu to collect the tax must, for fuels delivered after midnight the evening of the Budget Speech to gasoline retailers or consumers in this specific region and in bordering regions, collect the tax and remit it at the new rate. For all other cases, the full amount of the tax must be collected.

Wholesalers not covered by the agreement with the ministère du Revenu to collect and remit the tax will be entitled to a refund in the amount of the tax reduction for fuels delivered, after midnight the evening of the Budget Speech, to gasoline retailers or consumers located in these new regions.

The tax reductions in these new regions will only apply if the fuel is pumped directly into a motor vehicle tank or a container not exceeding 205 litres, or if it is delivered to a consumer and pumped directly into a fixed storage tank located in these regions.

Finally, holders of taxi vehicle permits issued for this specific region or the bordering region will no longer be eligible for the special $ 500 tax credit for 1988 and subsequent taxation years, considering the fuel tax reduction in this region and the fact that the special tax credit is used to offset a portion of the fuel tax.

Additional assistance for the creation of regional Québec Business Invesment Companies (QBICs)

Generally, a Québec Business Investment Company is a private corporation whose activities consist principally in purchasing and holding capital stock in small and medium-sized private corporations. When one of these companies makes an eligible investment, its shareholders can claim a deduction and, if the sums are invested in a venture capital corporation, a 20 % tax credit with respect to that investment. The rate of deduction applicable is 100 %, or, for a stock ownership plan, 125 %.

Because the challenges confronting regional firms are so big, additional tax allowances are being granted for investments in private small and medium-sized regional business firms. This injection of new venture capital will enable local entrepreneurs, who have already proved the vitality of their operations, to meet these challenges.

To channel more venture capital into the regions, the program has been recast to encourage the creation of regional QBICs. A regional QBIC is a Québec Business Investment Company whose investments consist in purchasing and holding capital stock solely in private regional corporations.

Higher deduction rate

Additional deduction of 25 %

The deduction rate applicable under an eligible investment by a regional QBIC is increased by 25 percentage points from 100 % to 125 % and, if each of the QBIC's shareholders is an eligible employee of the corporation in which the eligible investment is made, from 125 % to 150 %. For a venture capital corporation which holds shares in a QBIC, the tax credit is increased 5 percentage points from 20 % to 25 %.

Reduction in minimum paid-up capital

To encourage the creation of such investment companies, the minimum paid-up capital of $ 100 000 currently required for establishing a QBIC will be reduced to $ 50 000 for regional QBICs.

Creation of a subsidy program

$ 5 000 subsidy

Finally, a subsidy program administered by the Société de développement industriel du Québec is being set up. Under this program, a non-taxable subsidy corresponding to the lesser of $ 5 000 and 50 % of all start-up costs, incorporation fees and initial investment expenses of a regional QBIC may be paid by the Société de développement industriel du Québec. This program will also apply to QBICs which are not regional.

$ 10 000 subsidy for employee QBICs

Furthermore, given the additional costs for employees of forming QBICs, this subsidy may be as high as $ 10 000.

This measure will apply to all QBICs registered as such between the day of the Budget Speech and May 1, 1990.

Regions targeted

The regions targeted by this measure are in Gaspésie, Îles-de-la-Madeleine, Bas Saint-Laurent, Saguenay — Lac-Saint-Jean, Outaouais excluding Hull-Gatineau, Abitibi-Témiscamingue, Côte-Nord and northern Québec.

The specific boundaries of these regions will be indicated by the Société de développement industrielle du Québec.

Terms and conditions

A regional Québec Business Investment Company is a private corporation registered as such with the Société de développement industriel du Québec. The QBIC's activities consist solely in purchasing capital stock in private corporations located in a target region. At least 75 % of its wages must be paid to the employees of an establishment located in such a target region.

Effective date

These measures apply to all regional QBICs registered by the Société de développement industriel du Québec after the day of the Budget Speech.

A QBIC existing the day of the Budget Speech may also apply to the Société de développement industriel du Québec to be recognized as a regional QBIC, thereby enabling its stockholders to benefit from additional deductions for any investments made after the day of the Budget Speech.

4. Various fiscal and budgetary measures

Sales tax

Equipment purchased for manufacturing prototypes

Currently, equipment purchased for designing certain prototypes is considered to be production equipment and as such is exempt from the retail sales tax. However, this exemption does not apply to equipment purchased to design prototypes for rolling stock such as locomotives.

Henceforth, this exemption will apply to the purchase of equipment for designing such prototypes.

This measure applies to equipment purchased after the day of the Budget Speech.

Vehicles used by automobile manufacturers

Currently, any dealer who sells or leases motor vehicles in Québec and who, for this purpose, holds a registration certificate issued by the Minister of Revenue, pays the retail sales tax for an automobile from his inventory used for company purposes or made available free of charge to an individual, for each month the vehicle is used, on an amount equal to 2.5 % of the vehicle's purchase price.

Motor vehicle manufacturers are exempt from this formula for some of the vehicles they manufacture. To standardize the tax treatment reserved for automobile dealers and automobile manufacturers, the taxation formula for these dealers will also apply to these manufacturers for vehicles they have manufactured when these are taken from their inventories and used for company purposes or made available by the manufacturer to an individual free of charge.

This measure will apply to all motor vehicles from a manufacturer's inventory and used for company purposes or made available by the manufacturer to an individual free of charge after the day of the Budget Speech.

Exemption from the tax on meals and hotels for certain establishments

At present, the tax on meals and hotels does not apply to meals sold, delivered or served by a person running an establishment where, in exchange for weekly or monthly payments, individuals are lodged or lodged and fed, or by an educational institution, a charity, hospital, shelter or other similar institution. Persons operating such establishments or institutions and preparing meals are not required to collect taxes on the meals they sell to or provide for their customers or beneficiaries.

However, this exemption does not apply where such establishments or institutions entrust the preparation of their meals to other operators. To standardize the application of this tax exemption, the tax on meals and hotels will not apply when such an establishment or institution entrusts meal preparation to another operator if these meals are prepared and served in the establishment or institution for its customers or beneficiaries.

Fuel tax exemption for granite quarries

Currently, persons are entitled to a fuel tax refund when the fuel is used for the operation of a motor vehicle licensed for use exclusively on private property or private roads and used in mining operations. For these purposes, a mining

operation is an activity carried out to discover a mineral resource in Québec or to exploit such a resource. The mineral resources in question consist mainly of a deposit of base or precious metals or a mineral deposit whose principal mineral extract is an industrial mineral contained in a non-stratified deposit.

Since the operation of a granite quarry was not covered under this exemption, the operators of granite quarries were not eligible for the fuel tax refund.

Changes will be made so that granite quarry operators will enjoy the same treatment as is applied when non-stratified deposits of industrial minerals are exploited. Granite quarry operators will be entitled to the fuel tax refund for fuel used after midnight the evening of the Budget Speech to operate a motor vehicle used in their mining operations and licensed for use exclusively on private property or private roads.

Interest rate applicable to ministère du Revenu debts and refunds

Automatic quarterly rate setting

At present, government debts payable under tax legislation and tax refunds of the ministère du Revenu bear interest at the rate of 11 %. The Minister of Revenue may determine a new rate when he judges this appropriate. This rate must be published in the *Gazette officielle du Québec* and comes into force only on the day indicated.

The formula currently used to determine this rate is based on the simple arithmetic average of the Bank of Canada's prime rate in effect the last Wednesday of each month, over 3 months ending with the second month of the quarter preceding the rate's coming into effect. The result is then rounded off to the nearest whole number and 2 percentage points are added.

To be effective, any variation in this rate must be announced by the Minister of Revenue at his discretion and must be published in the *Gazette officielle du Québec*. The formula for determining this rate is not restrictive. This gives rise to a complex administrative process and creates uncertainty in the minds of taxpayers who cannot know in advance what interest rate will be applicable in the next quarter. However, under the federal taxation system, the situation is very different since tax legislation and regulations contain a precise formula which allows the interest rate applicable for the next quarter to be determined in advance.

To ensure that the interest rate used for government debts and tax refunds from the ministère du Revenu is closer to interest rates in effect on the market, and to allow taxpayers to know the rate applicable for the following quarter in advance, while maintaining an interest rate high enough to discourage individuals and corporations from financing their projects using public funds, the quarterly interest rate will vary automatically. The formula currently used as a reference guide will be incorporated into tax legislation and regulations.

The interest rate will be determined in this way as of the quarter beginning July 1, 1988, based on the preceding months.

Ministère du Revenu interest payments

The interest rate applicable to ministère du Revenu refunds is the same as that applicable to government debts. However, the taxpayer owing money to the ministère du Revenu under tax legislation generally has 30 days' grace in which to pay his debt. The department generally has 60 days' grace in which to make certain refunds.

To be fairer to taxpayers, the 60-day period of grace allowed the ministère du Revenu will be reduced to 30 days, where applicable, for refunds payable after June 30, 1988.

Hence, taxpayers will generally receive interest on amounts owed them by the ministère du Revenu, beginning on the 31st day after the date the monies are owed, rather than having to wait 60 days before being entitled to interest payments.

Penalty for insufficient tax instalments

Under existing regulations, a taxpayer who is required to pay income tax instalments is not subject to an additional 5 % penalty if, at the date he is required to pay the balance of his estimated income tax for the year, all or part of the payments he made for that year are at least 90 % of his required annual payment.

To ensure that this measure is implemented in its entirety, amendments will be made so that a taxpayer cannot benefit from this measure unless he pays the tax instalments required. Moreover, regulations will be implemented to ensure that each payment made represents at least 90 % of the payments required.

These amendments will be implemented in taxation year 1988 and will apply to the taxation years ending after the date to be determined by the Minister of Revenue.

Refund of certain legal fees

On March 2, 1988, the ministère des Finances issued a press release stating that clarifications would be made to tax legislation and regulations excluding rolling stock from the retail sales tax exemption for production equipment. These clarifications are designed to ensure that legislative and regulatory texts are consistent with government fiscal policy over the past few years, given the fact that this policy has always been clear and that the amounts involved are considerable. The press release also stated that reasonable compensation could be paid by the Minister of Revenue to taxpayers whose lawsuits were pending before the Courts at the time of the press release and that details of the measures pursuant to this statement and the terms of payment of the compensation would be indicated in the Appendix on Fiscal and Budgetary Measures in the 1988-1989 Budget Speech.

To ensure that firms pay sales tax when they purchase rolling stock, except on those items specifically exempted, and to dispel any ambiguity in this regard, the content of the regulation respecting the exemption stipulated in paragraphs (z) and (aa) of section 17 of the Retail Sales Tax Act will be inserted in this Act. This measure is declaratory, even with regard to pending lawsuits.

To take into account the legal fees incurred as at the day the press release was made public, despite the provisions of any other act or regulation, the Minister of Revenue will compensate the attorneys of taxpayers with lawsuits pending by paying them an amount calculated in accordance with the Tariff of judicial fees of advocates, but not taking into account the consulting fees or special fees stipulated in section 15 of this table, for the amount of the litigation dealing with the rolling stock referred to in the application, if the taxpayer has not been assessed, or appearing on a notice of assessment under the heading "balance" if this notice is the subject of litigation. This amount will replace any fees which might have been taxable and will be paid out to these attorneys under the Tariff of judicial fees of advocates. An equivalent amount will be paid to the party itself as compensation for costs incurred, including consulting fees and other outlays.

Tax treatment of retroactive disability pension payments

Any individual receiving benefits under certain specific programs governed by the Automobile Insurance Act, the Act respecting industrial accidents and occupational diseases and the Social Aid Act may be retroactively eligible for a disability pension paid by the Régie des rentes du Québec. This situation is due mainly to administrative delays in examining disability pension applications.

Under the existing tax system, benefits received under these specific programs must be either included in the income calculation and then deducted when calculating taxable income, or else completely free from taxation. The retroactive payment from the Régie des rentes du Québec is taxable but does not give rise to an equivalent deduction when calculating the beneficiary's taxable income. Since the cumulation of disability benefits received under these various specific programs and from the Régie des rentes du Québec is not permitted, the individual must repay the benefits received under these specific programs. Since no tax is payable on the benefits received under these specific programs, contrary to those of the Régie des rentes du Québec, this individual may find himself in a difficult situation.

To relieve this situation, changes will be made to allow an individual considered retroactively eligible for a Régie des rentes du Québec disability pension to spread the tax on the retroactive payments received over the taxation years for which Régie des rentes du Québec payments are made, when he has to refund benefits received under these specific programs.

This measure applies to all retroactive payments paid since 1986.

International financial centres

Eligible activities

To be recognized as such, an international financial centre must only engage in activities related to the international transactions stipulated in the regulations. These operations are far more extensive than those provided for in federal legislation, which restricts eligible activities to banking transactions.

To ensure a certain concordance between Québec and Canadian tax legislation and regulations pertaining to these transactions, certain points will be clarified so that all transactions that may be carried out by an international banking centre under federal legislation will also be considered eligible under Québec regulations, in addition to all the international operations already covered thereunder.

This measure will apply to all operations carried out by a certified international financial centre.

Exchange transactions

Exchange transactions constitute an operation that may be carried out by an international financial centre. Since existing tax regulations do not define this activity, changes will be made to ensure that such operations really are of an international nature.

These clarifications will define an exchange transaction as: any purchase or sale of currency, for cash or over a given term, any purchase, sale or exercise of an option or futures contract on currency, and any currency exchange transaction, carried out by a certified international financial centre.

The purchase or sale of bills or travellers' cheques is not considered an exchange transaction.

This measure will apply to all transactions carried out by a certified international financial centre.

Additional employees for the ministère du Revenu

Additional estimates totalling $ 2 000 000 will be presented to the National Assembly to cover certain administrative expenditures of the ministère du Revenu. This will allow the department to maintain its 1987-1988 staffing level for permanent employees, and to avoid the 2 % cutback normally applicable, which would have meant a loss of 87 jobs. As a result, the ministère du Revenu will be in a position to continue improving collection of revenue by introducing additional programs for ending tax avoidance, notably with respect to fuel, tobacco, alcoholic beverages and amusement devices.

Young artists

To allow the ministère des Affaires culturelles to participate even more actively in producing and disseminating the works of young artists, additional funds totalling $ 5 000 000 will be added to the ministère des Finances contingency fund.

5. Concordance with federal tax legislation and regulations

On February 10, 1988, the federal Minister of Finance tabled a Notice of Ways and Means Motion to Amend the Income Tax Act. Québec tax legislation and regulations will be amended to be more consistent with the federal tax system. However, concordance measures will be adopted only after all federal legislation related to the notice is assented to and will be applicable as of the same dates as those applying to federal income tax. These concordance measures are listed below.

Certain provisions announced by the federal government have not been retained since existing Québec legislation is satisfactory in this regard. This is true for the measure related to the purchase of shares in a national labour-sponsored venture capital corporation (BR 2)*, the child tax credit (BR 4), the tax collection procedure (BR 16), the rules governing penal proceedings (BR 17) and the certificate issued for amounts payable (BR 18). Others have not been retained since the Québec tax system does not contain corresponding provisions. This applies to the measures concerning the obligation to indicate the social insurance number for the child tax credit and for the sales tax credit (BR 8), the non-resident withholding tax with respect to interest, films and video tapes (BR 12 and BR 13) and the disposition of shares by non-resident-owned investment corporations (BR 14).

Finally, the measure for child care expenses (BR 3) is addressed in a specific provision in the section on personal income tax reform.

Certain measures were announced by the federal Minister of Finance in press releases issued by his department. The measure concerning the earned depletion allowance for mining exploration (88-53)** is described in the section "Exploration expenses incurred in Québec". Furthermore, certain measures were not retained since they do not correspond to the features of the Québec tax system. They are: the measure concerning the special income tax on certain insurance company investment earnings (88-22) and the measure concerning the refund of the tax credit on investment for scientific research and experimental development (88-41).

Concordance measures

Québec tax legislation and regulations will be amended to include the following federal measures by adapting them, in terms of their overall principles:

1. amendments made to the rules for associated corporations and persons related to them (BR 1);***

2. third-party alimony and maintenance payments (BR 5);

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* The references in parentheses represent the number of the Budgetary Resolution corresponding to the Notice of Ways and Means Motions to amend the Income Tax Act, tabled February 10, 1988.

** The references in parentheses represent the number of the federal Department of Finance press release.

*** The details of this measure are explained in the Draft Legislation Relating to Associated Corporations, also tabled February 10, 1988 by the federal Minister of Finance.

3. an extension of the rules concerning support payments to a common-law spouse (BR 6);

4. restrictions concerning the allowable deduction of third-party social assistance payments (BR 7);

5. changes in the block averaging calculations for fishermen and farmers (BR 9);

6. technical adjustments precluding consideration of the Northern allowance for the purposes of the alternative minimum tax (BR 10);

7. extending the definition of mineral resource to include deposits whose principal extract is kaolin (BR 11);

8. provincial taxes deducted at source, where Québec has jurisdiction (BR 15);

9. changes to the provisional measures related to scientific research and experimental development (part of 88-18);

10. changes in the rules for calculating profits from resources related to tar sands production;**** and

11. restrictions concerning the accelerated depreciation deduction for energy-conservation equipment belonging to category 34.****

Draft legislation on tax assistance for retirement saving

In his March 28, 1988 press release (88-32), the federal Minister of Finance made public the Proposed Amendments to the Income Tax Act and Income Tax Regulations Relating to Saving for Retirement. This draft legislation flows from the reform of tax assistance for retirement saving. The principle of making the Québec system consistent with this reform has already been announced and the terms and conditions of this exercise will be made public soon.

**** This measure is given in the budgetary documents accompanying the February 10, 1988 Budget Speech; Section II, "Income Tax Measures".

6. Summary of the financial impact of fiscal and budgetary measures

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES
1988-1989 BUDGET SPEECH
(In millions of dollars)

	Impact on the tax burden and disposable income		Financial impact for the gouvernement du Québec		
	1988	1989	1988-1989	1989-1990	1990-1991
FISCAL MEASURES					
1. PERSONAL INCOME TAX REFORM AND ASSISTANCE TO FAMILIES					
☐ Personal income tax reform	– 305	– 892	– 173	– 1 088	– 994
☐ Assistance to families					
• Abolition of the recovery of family allowances	– 123	– 126	– 20	– 217	– 129
• Improvement in tax reduction and property tax refund	– 95	– 65	– 4	– 113	– 65
• Monthly allowances for young children	– 3	– 52	– 29	– 47	– 49
• Allowance for newborn children					
– birth of first and second child	– 23	– 33	– 30	– 34	– 35
– birth in large families	– 26	– 38	– 36	– 37	– 38
• Subtotal	– 270	– 314	– 119	– 448	– 316
☐ Assistance to the elderly	– 27	– 27	—	– 29	– 27
☐ Acceleration of income tax refunds as of the first quarter of 1989	—	—	– 550	550	—
☐ Subtotal	– 602	– 1 233	– 842	– 1 015	– 1 337
2. ECONOMIC GROWTH AND JOB CREATION					
2.1 Strategic economic investments					
• Increase in additional deduction to 66 2/3 % for Québec film production	– 4	– 5	—	– 5	– 5
• Improvement in Québec Stock Savings Plan	– 19	– 26	—	– 27	– 29
• Provision for the impact of the measures on taxpayers' behaviour	– 5	– 5	—	– 7	– 5
• Subtotal	– 28	– 6	—	– 39	– 39
2.2 Improvements in the business tax system					
☐ Measures to promote investment					
• Deduction for investments in Québec	– 40	– 73	– 40	– 84	– 80
• Gradual elimination of the special tax on oil refineries	– 5	– 14	– 9	– 15	– 19
☐ Research and development	– 2	– 17	– 1	– 13	– 17
☐ Subtotal	– 47	– 104	– 50	– 112	– 116
Subtotal	– 75	– 140	– 50	– 151	– 155
3. PUBLIC INVESTMENT AND REGIONAL VITALITY	n	n	n	n	n
4. VARIOUS FISCAL MEASURES	—	—	7	7	7
5. CONCORDANCE WITH FEDERAL TAX LAWS AND REGULATIONS	n	n	n	n	n
6. TOTAL IMPACT OF FISCAL MEASURES ON INCOME	– 677	– 1 373	– 885	– 1 159	– 1 485
7. FAMILY ALLOWANCES CHARGED AGAINST GOVERNMENT REVENUE	—	—	– 59	– 239	– 249
8. TOTAL IMPACT OF FISCAL MEASURES	– 677	– 1 373	– 944	– 1 398	– 1 734

Note : A negative figure indicates a reduced tax burden or increased disposable income for taxpayers and a cost for the government.
n : less than $ 1 million.

FINANCIAL IMPACT OF FISCAL AND BUDGETARY MEASURES
1988-1989 BUDGET SPEECH (cont.)
(In millions of dollars)

	Impact on the tax burden and disposable income		Financial impact for the gouvernement du Québec		
	1988	1989	1988-1989	1989-1990	1990-1991
BUDGETARY MEASURES					
1. PERSONAL INCOME TAX REFORM AND ASSISTANCE TO FAMILIES					
□ Assistance to families					
– Harmonization of APPORT with increase in zero tax thresholds	—	– 15	– 2	– 11	– 16
– Additional assistance to day care centres	—	—	– 2	—	—
– Access to home ownership	– 3	– 9	– 5	– 9	– 14
– Subtotal	– 3	– 24	– 9	– 20	– 30
□ Assistance to young artists	—	—	– 5	—	—
□ Subtotal	– 3	– 24	– 14	– 20	– 30
2. ECONOMIC GROWTH AND JOB CREATION	—	—	—	—	—
3. PUBLIC INVESTMENT AND REGIONAL VITALITY					
□ Investments in the road network	—	—	– 30	—	—
□ Forest road work	—	—	– 6	– 11	– 12
□ Special job programs					
– jobs in the forestry sector	—	—	– 7	—	—
– jobs in Gaspésie	—	—	– 6	—	—
□ Assistance for waterworks and sewer systems	—	—	– 8	– 10	– 13
□ Assistance for regional development	—	—	– 12	– 12	– 12
□ Subtotal	—	—	– 69	– 33	– 37
4. VARIOUS BUDGETARY MEASURES					
□ Special programs of the ministère du Revenu	—	—	– 2	—	—
□ Interest rate of the ministère du Revenu : change in period of grace	—	—	– 6	– 6	– 6
□ Subtotal	—	—	– 8	– 6	– 6
5. TOTAL IMPACT OF BUDGETARY MEASURES ON EXPENDITURE	– 3	– 24	– 91	– 59	– 73
6. FAMILY ALLOWANCES CHARGED AGAINST GOVERNMENT REVENUE	—	—	59	239	249
7. TOTAL IMPACT OF BUDGETARY MEASURES	– 3	– 24	– 32	180	176
TOTAL FISCAL AND BUDGETARY MEASURES	**– 680**	**– 1 397**	**– 976**	**– 1 218**	**– 1 558**

Note : A negative figure indicates a reduced tax burden or increased disposable income for taxpayers and a cost for the government.
n: less than $ 1 million.

APPENDIX B

Medium-Term Outlook for the Québec Government's Financial Position

Introduction 3

Medium-term financial framework 3

Budgetary revenue 3

- Own-source revenue 3
- Federal transfers 4

Budgetary expenditure 5

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Non-budgetary transactions 6

Net financial requirements 7

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- Budgetary deficit and net financial requirements 7
- Debt 8
- Debt service 9
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Conclusion 11

Introduction

A three-year forecast of the government's financial framework is a valuable analysis and management tool. Taking into consideration the economic outlook and the fiscal and budgetary policies announced in this Budget Speech, it makes it possible to study the anticipated changes in the Québec government's financial position. The figures, however, depend to a large extent upon the economic situation developing as forecast. It is assumed in the economic outlook that there will be no recession. If one did occur, the fiscal and budgetary policy objectives would have to be reexamined.

After outlining the economic scenario underlying the medium-term financial outlook, this appendix provides a forecast of the government's revenue, expenditure and financial framework for the period from 1988-1989 to 1990-1991. The outlook for the main financial indicators is discussed in the last section.

Medium-term financial framework

The revenue and expenditure forecast is conditional upon economic growth of approximately 3 % annually. Employment is expected to grow by 2.5 % and the unemployment rate should continue to fall, from 10.3 % in 1987 to 8.4 % in 1991. The main hypotheses underlying this forecast are discussed in detail in Appendix D, which contains a review of the economy in 1987 and the economic outlook.

Budgetary revenue

The average growth of budgetary revenue from 1988-1989 to 1990-1991 should be below that of gross domestic product. This phenomenon is mainly attributable to the substantial tax reductions announced in this Budget, which will appreciably reduce the growth of own-source revenue in 1988-1989. It also stems from the very slow growth of federal transfer revenue, which will increase at an average rate decidedly lower than that of inflation over the forecast period.

Own-source revenue

Own-source revenue to grow more slowly than GDP in 1988-1989, then slightly more rapidly

Own-source revenue grew much more rapidly than GDP in 1987-1988, because of the exceptional rise in several sources of revenue and other non-recurring factors. The modest increase of 3.2 % in own-source revenue in 1988-1989 is principally the result of the fiscal measures in this Budget which will decrease revenue by $ 944 000 000, reducing its growth by 4.2 percentage points. The non-recurrence of certain revenue recorded in 1987-1988 will also diminish the anticipated growth of revenue in 1988-1989. In the following two years, own-source revenue should increase only slightly more rapidly than GDP.

CHANGE IN BUDGETARY REVENUE
(in millions of dollars)

	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991
Own-source revenue before changes in family allowances	15 596.9	16 004.6	17 964.5	19 697.6	22 217.0	22 980.0	25 047.0	27 224.0
% change		2.6	12.2	9.6	12.8	3.4	9.0	8.7
Family allowances charged against government revenue						- 59.0	- 239.0	- 249.0
Own-source revenue	15 596.9	16 004.6	17 964.5	19 697.6	22 217.0	22 921.0	24 808.0	26 975.0
% change		2.6	12.2	9.6	12.8	3.2	8.2	8.7
Federal transfers	6 250.1	6 260.7	6 221.0	5 872.1	6 182.0	6 413.0	6 675.0	6 593.0
% change		0.2	- 0.6	- 5.6	5.3	3.7	4.1	- 1.2
Budgetary revenue	21 847.0	22 265.3	24 185.5	25 569.7	28 399.0	29 334.0	31 483.0	33 568.0
% change		1.9	8.6	5.7	11.1	3.3	7.3	6.6
GDP growth rate in %*	7.0	9.4	8.0	9.5	9.0	8.3	7.1	7.2

* For the calendar year ending three months before the end of the fiscal year under consideration.

Federal transfers

Federal transfer revenue varies greatly from year to year on a cash basis, because the figures include payments related to the current fiscal year and adjustments related to previous years which are generated by changes in the data used to calculate the transfers. This is why it is preferable to consider federal transfers on an accrual basis. The data then reflect all the payments related to a given year, regardless of when the payments are received. The changes in federal transfers, according to both concepts, are shown in the following table.

CHANGE IN REVENUE FROM FEDERAL TRANSFERS
(in millions of dollars)

	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991
Transfer revenue	6 250.1	6 260.7	6 221.0	5 872.1	6 182.0	6 413.0	6 675.0	6 593.0
% change		0.2	- 0.6	- 5.6	5.3	3.7	4.1	- 1.2
Adjustment to attribute amounts received to the appropriate year	- 310.0	- 203.0	- 121.0	108.0	21.0	- 58.0	- 287.0	- 121.0
Transfers on an accrual basis	5 940.1	6 057.7	6 100.0	5 980.1	6 203.0	6 355.0	6 388.0	6 472.0
% change		2.0	0.7	- 2.0	3.7	2.5	0.5	1.3

Virtual stagnation of federal transfers

On an accrual basis, federal transfers have more or less stagnated since 1983-1984, and will probably continue to do so over the whole of the forecast period. From 1988-1989 to 1990-1991, the average annual growth of federal transfers should be only 1.4 %, compared to 4.3 % for the Consumer Price Index. The real value of federal transfers will therefore continue to fall.

This situation is attributable for the most part to two of the main transfer programs. On the one hand, federal financing of health and post-secondary education should continue to decline by an average of 1 % per year, notably

because of the de-indexation of federal contributions in these sectors. From 1982-1983 to 1987-1988, cutbacks in federal financing of health and post-secondary education caused a cumulative shortfall for Québec of $ 2 195 000 000. In 1988-1989, the shortfall will total $ 714 000 000, $ 279 000 000 of which is attributable to the de-indexing under Bill C-96, adopted in April 1986. On the other hand, federal contributions to welfare programs, based on the sharing of eligible expenditures, should undergo an average annual reduction of 1.6 %, in the wake of the levelling off of expenditures earmarked for welfare, particularly those related to social aid, mainly owing to improvement in the economic situation.

After reaching a peak of 28.6 % in 1983-1984, federal transfers as a proportion of Québec's budgetary revenue should drop to only 19.6 % in 1990-1991. In light of the government's high-priority financial objectives, such as reducing the deficit and taxes, the slow growth in federal transfers will have to be offset by further rationalization of spending in the coming years.

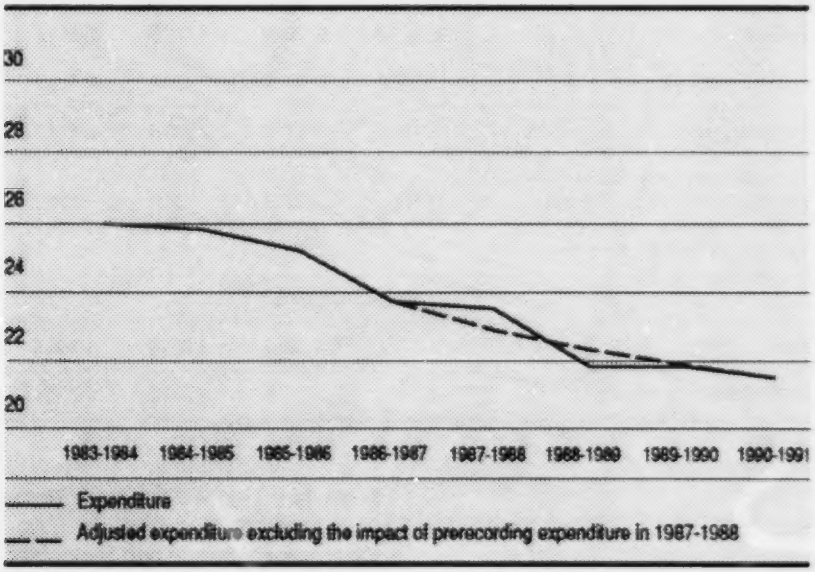
Budgetary expenditure

Through consistently prudent management, government spending as a percentage of GDP has dropped appreciably since 1985-1986. Spending will continue to be curbed in the forecast period. Its average rate of growth should be two percentage points lower than that of GDP from 1988-1989 to 1990-1991, taking into consideration the prerecording of some expenditures in 1987-1988 and because family allowances will be treated as a deduction from revenue rather than as an expenditure. On this basis, expenditures should increase at a rate slightly more than one percentage point above that of inflation.

Expenditure as percentage of GDP declining

Consequently, whereas Québec government spending represented 26.0 % of GDP in 1983-1984 and 23.6 % in 1987-1988, it should represent only 21.6 % in 1990-1991.

BUDGETARY EXPENDITURE
(as a percentage of GDP)



CHANGE IN BUDGETARY EXPENDITURE
(in millions of dollars)

	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991
Budgetary expenditure	– 23 947.8	– 26 061.0	– 27 529.4	– 28 388.9	– 30 749.0	– 30 934.0	– 32 983.0	– 34 968.0
% change		8.8	5.6	3.1	8.3	0.6	6.6	6.0
Expenditure prerecorded in 1987-1988					849.0	– 625.0	– 136.0	8.0
Family allowances charged against government revenue						– 59.0	– 239.0	– 249.0
Adjusted budgetary expenditure	– 23 947.8	– 26 061.0	– 27 529.4	– 28 388.9	– 29 900.0	– 31 618.0	– 33 358.0	– 35 209.0
% change		8.8	5.6	3.1	5.3	5.7	5.5	5.5
GDP growth rate in %*	7.0	9.4	8.0	9.5	9.0	8.3	7.1	7.2
Canadian inflation rate in %*	5.8	4.3	4.0	4.2	4.4	4.3	4.3	4.4

* For the calendar year ending three months before the end of the fiscal year under consideration.

Budgetary deficit

Deficit to drop $750 million in 1988-1989, then $100 million per year

Given the outlook for revenue and expenditure described above, the budgetary deficit should total $ 1 600 000 000 in 1988-1989, $ 1 500 000 000 in 1989-1990 and $ 1 400 000 000 in 1990-1991.

STATEMENT OF FINANCIAL TRANSACTIONS
(in millions of dollars)

	1983-1984	1984-1985	1985-1986	1986-1987	1987-1988	1988-1989	1989-1990	1990-1991
Budgetary transactions								
Own-source revenue	15 596.9	16 004.6	17 964.5	19 697.6	22 217.0	22 921.0	24 808.0	26 975.0
Federal transfers	6 250.1	6 260.7	6 221.0	5 872.1	6 182.0	6 413.0	6 675.0	6 593.0
Budgetary revenue	21 847.0	22 265.3	24 185.5	25 569.7	28 399.0	29 334.0	31 483.0	33 568.0
Budgetary expenditure	– 23 947.8	– 26 061.0	– 27 529.4	– 28 388.9	– 30 749.0	– 30 934.0	– 32 983.0	– 34 968.0
Budgetary deficit	– 2 100.8	– 3 795.7	– 3 343.9	– 2 819.2	– 2 350.0	– 1 600.0	– 1 500.0	– 1 400.0
Non-budgetary transactions								
Investments, loans and advances	– 671.7	– 167.4	40.4	– 379.7	– 674.0	– 767.0	– 805.0	– 884.0
Retirement plans account	1 056.7	1 183.5	1 269.0	1 354.8	2 205.0	1 241.0	1 714.0	2 031.0
Provision for financing the water purification program	—	—	4.3	9.8	12.0	14.0	– 3.0	1.0
Other accounts	– 535.4	766.4	290.2	83.7	– 569.0	132.0	– 156.0	– 248.0
Balance	– 150.4	1 782.5	1 603.9	1 068.6	974.0	620.0	750.0	900.0
Net financial requirements	– 2 251.2	– 2 013.2	– 1 740.0	– 1 750.6	– 1 376.0	– 980.0	– 750.0	– 500.0

Non-budgetary transactions

Sizable surpluses in non-budgetary transactions will continue to be recorded, although they will be smaller than those in recent years. This will accentuate the downward trend in the government's net financial requirements. The

surpluses are mainly attributable to the retirement plans account. It should be noted that the substantially higher surpluses in 1987-1988 and the appreciably lower ones in 1988-1989 are the result of the prerecording in 1987-1988 of contributions normally made in the following two years for past service under the retirement plans.

Investments, loans and advances will continue to constitute a major financial requirement for the government, owing mainly to the rise in the equity value of its investments in government corporations.

Net financial requirements

Net financial requirements below $1 billion as of 1988-1989

Net financial requirements will fall dramatically in the coming years, from $ 1 376 000 000 in 1987-1988 to $ 980 000 000 in 1988-1989, $ 750 000 000 in 1989-1990 and $ 500 000 000 in 1990-1991. The last figure is less than one-quarter of the record $ 2 251 200 000 reached in 1983-1984. Net financial requirements below $ 1 000 000 000 have not been recorded since 1975-1976.

Financial indicators

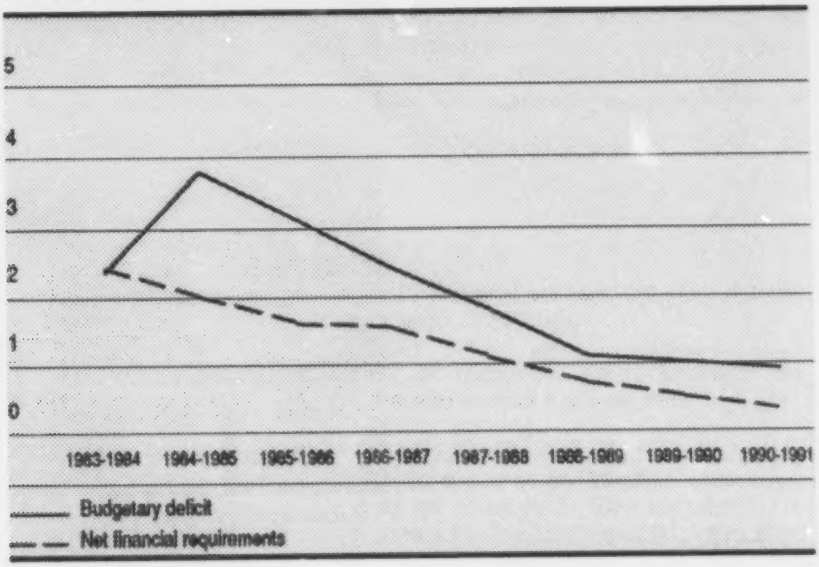
The improvement in the government's budgetary position over the past two years and for the three-year forecast period is reflected in the main indicators of its financial position.

Budgetary deficit and net financial requirements

Deficit and net financial requirements as percentages of GDP continue to fall

Whereas the deficit represented 3.8 % of GDP in 1984-1985 and 1.8 % in 1987-1988, it should represent only 0.9 % in 1990-1991, while net financial requirements, which were 2.4 % of GDP in 1983-1984, will account for only 0.3 % in 1990-1991.

BUDGETARY DEFICIT AND NET FINANCIAL REQUIREMENTS
(as a percentage of GDP)



APPENDIX B

Debt

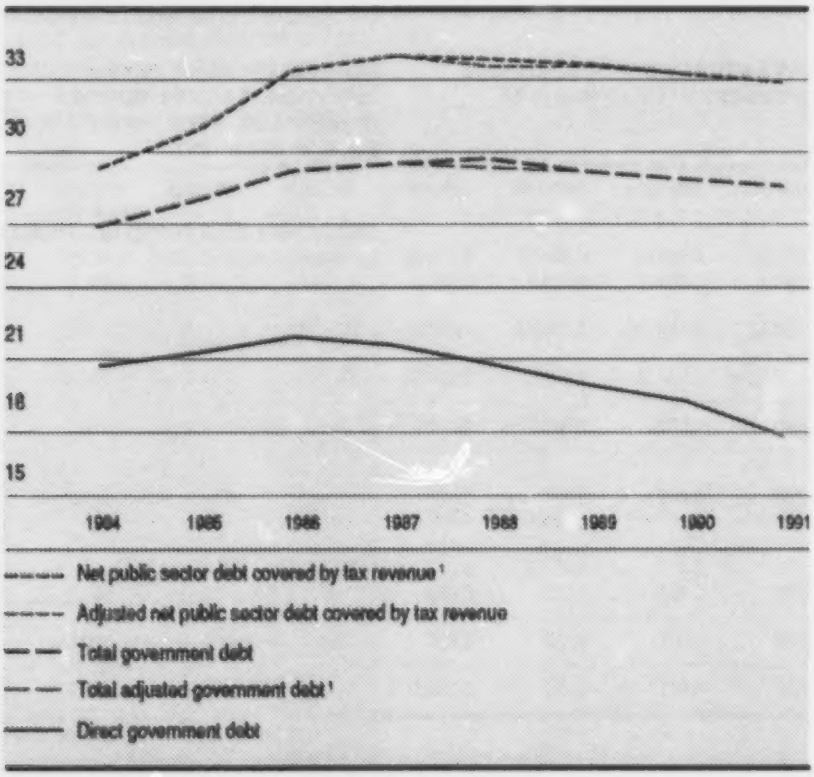
The reduction in the budgetary deficit and net financial requirements will result in a substantial drop in government indebtedness indicators. Direct debt, including long-term debt and Québec government Treasury bills, as a proportion of GDP will continue the drop begun in 1986, falling from 20.6 % in 1988 to 17.9 % in 1991.

Reduction in debt as a proportion of GDP

Total government debt, including direct debt and commitments recorded in regard to the retirement plans of public and parapublic employees, as a proportion of GDP began to decline in 1988 and will continue to do so in the medium term. From 29.3 % as at March 31, 1987, it should fall to 28.2 % at the close of the 1990-1991 fiscal year. This is quite a remarkable performance, considering that it rose appreciably in preceding years.

A decline should be noted in an even broader indebtedness indicator, i.e. the net debt of Québec's public sector, covered by tax revenue, as a percentage of GDP. This includes total government debt, the debt of the education and the health and social services networks and that of the local sector, from which the net value of government investments in its enterprises is deducted. This indicator levelled off at 34.0 % in 1987 and should fall to 32.8 % in 1991.

GOVERNMENT AND PUBLIC SECTOR DEBT AS AT MARCH 31
(as a percentage of GDP)



1 Adjusted excluding the impact of prerecording expenditure in 1987-1988.

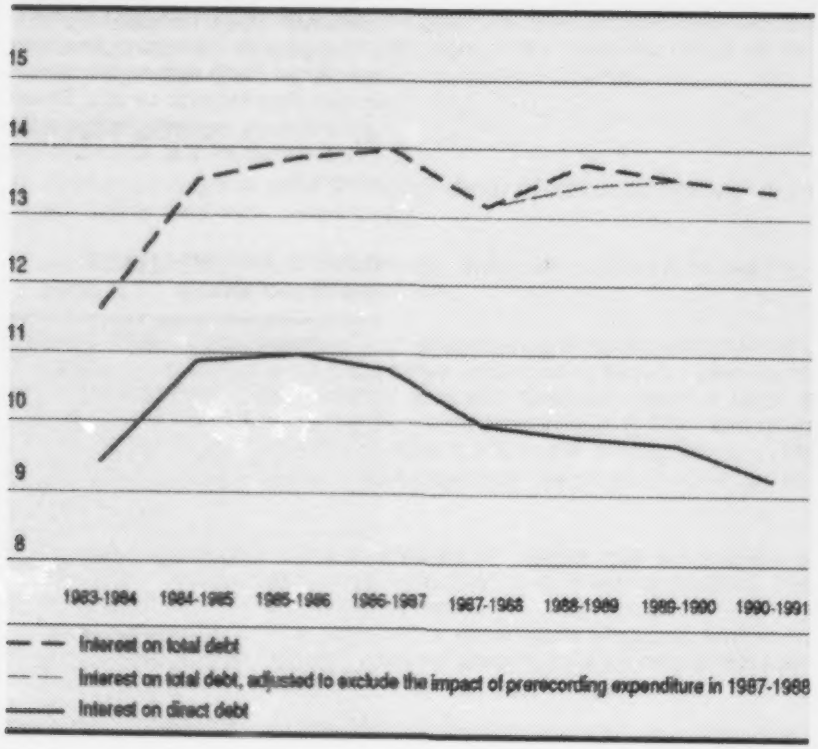
Debt service

The appreciable reduction in the government's rate of indebtedness is reflected in the resources that must be devoted to debt service.

Decrease in proportion of revenue earmarked for debt service

The percentage of budgetary revenue devoted to direct debt service has been decreasing since 1985-1986. Budgetary revenue earmarked for total government debt service reached a peak of 14.0 % in 1986-1987 and should be reduced to 13.4 % in 1990-1991.

INTEREST COSTS
(as a percentage of budgetary revenue)



Current account balance

Of all the indicators of the government's financial position, the most notable progress is being made in the current account balance.

This indicator makes it possible to determine the extent to which the government's budgetary revenue covers its current expenditures.

Traditionally, current expenditures are calculated by deducting from budgetary expenditures the government's capital expenditures and its contribution as an employer to the retirement plans of its employees. This contribution is threefold: that related to employees' current service, that respecting interest on the retirement plans account entered as a government liability, and that

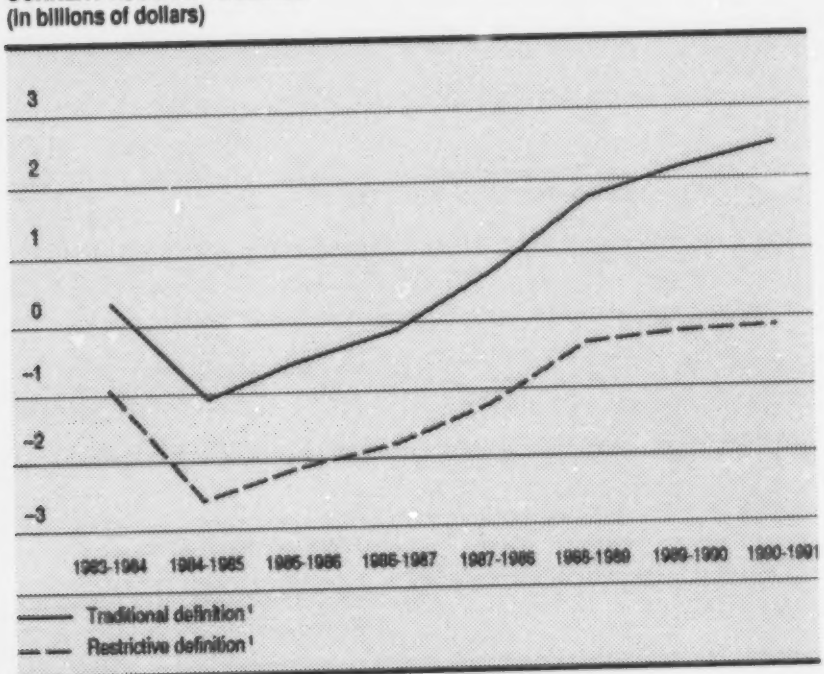
representing the amortization of the actuarial deficit of the retirement plans. This definition is used notably for interprovincial comparisons, since the recording of retirement plans varies from one province to another.

Current account surplus according to traditional definition

According to the traditional definition, there was, for all practical purposes, a balanced current account in 1986-1987 and there has been a surplus since then. This means that the government's budgetary deficit is now lower than the sum of its capital expenditures and contributions to its employees' retirement plans.

However, the fact of not considering contributions to retirement plans as current expenditures is questionable. The contribution for employees' current service is actually deferred pay in the form of pension benefits which the employees will receive in the future. The interest on the retirement plans account is also a component of the government's total debt service. It is only in the case of the contribution for amortization of the actuarial deficit of the retirement plans that the situation becomes less clear. This is, of course, a contribution for past service. However, if the government hopes to meet its commitments regarding public and parapublic sector employees, it must take this expenditure into consideration and ensure that its budgetary revenue covers it.

CURRENT ACCOUNT BALANCE
(in billions of dollars)



1 Adjusted excluding the impact of the prerecording of some expenditures in 1987-1988.

According to the restrictive definition of the current account balance, all the government's contributions to the retirement plans of its employees are considered current expenditures. This definition is therefore much more confining than the traditional definition: when the current account is balanced, the government borrows only to finance capital expenditures.

New objective: to borrow only to finance capital expenditures

In this Budget, the government has set a new objective, namely, to balance the current account according to the restrictive definition. As the above graph shows, this objective will be achieved, for all practical purposes, in 1990-1991 when the deficit will exceed capital expenditures by about $ 100 000 000. This will be an exceptional performance, considering that the current account deficit, according to the restrictive definition, totalled $ 2 522 200 000 in 1984-1985.

It should also be pointed out that even if the current account is not balanced immediately, only one facet of the government's contribution to its employees' retirement plans is not yet covered by its budgetary revenue: a portion of the contribution related to past service. The contribution related to current service and that respecting the interest on the retirement plans account are covered. This means that the government now covers all its commitments to its present employees with its current revenue. Budgetary revenue will gradually cover the entire expenditure related to amortization of the actuarial deficit of the retirement plans.

Conclusion

Analysis of the forecasts of the Québec government's financial framework from 1988-1989 to 1990-1991 shows that:

- with no economic recession, the budget deficit will continue to be reduced, falling to $ 1 400 000 000 in 1990-1991;
- considering the slow growth of federal transfers and the need to reform the taxation system to make it competitive again and to help broaden social justice, continued improvement in public finances depends upon a reduction of the proportion of government expenditures in GDP. Growth in expenditures should stabilize at about 5.6 % in the coming years, a rate slightly above that of inflation, but substantially lower than the GDP growth rate;
- achieving the objectives the government has set for itself will give rise to substantial improvement in the indicators of its financial position. The proportion of its revenue devoted to debt service will be reduced, releasing funds that can be earmarked for other expenditure programs. Moreover, pronounced improvement in the current account balance means that soon the government will borrow only to finance capital expenditures.

APPENDIX C

The Government's Financial Position and Borrowings in the Public Sector

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Analysis of the government's financial transactions is based on the data determined according to accounting practices in effect for the 1987-1988 fiscal year. The data given in the historical tables have, for purposes of comparison, been adjusted on the basis of the budgetary and financial structure that will prevail in 1988-1989.

The government's financial transactions

Deficit down to $ 2 350 000 000

Preliminary results of the government's financial transactions for the year ending March 31, 1988 show a $ 2 350 000 000 deficit in budgetary transactions compared to $ 2 819 200 000 for 1986-1987.

Surplus of $ 899 000 000 compared to initial forecast

The better-than-expected performance of the economy and strict management of expenditures allowed a budgetary surplus of $ 899 000 000 for the 1987-1988 fiscal year, compared to the initial forecast. This surplus helped reduce the budgetary deficit anticipated in the Budget Speech of April 30, 1987 by $ 50 000 000. The government nevertheless chose to be prudent in using this surplus, since, over the next few years, it will have to shoulder the costs of the tax reform, face the vagaries of the economic situation and reach its objective of reducing the deficit. The balance of the surplus was therefore allocated to the prerecording, in 1987-1988, of expenditures the government would normally have assumed only in the next few years.

Net financial requirements down to $ 1 376 000 000

Net financial requirements were $ 1 376 000 000, a decrease of $ 74 000 000 compared to the original forecast. This discrepancy reflects the combined impact of the reduction in the budgetary transaction deficit and the $ 24 000 000 increase in the surplus of non-budgetary transactions.

With respect to financing, the variation in the long-term debt amounted to $ 1 202 000 000, a reduction of $ 148 000 000 compared to that forecast in the Budget Speech. This variation, combined with the drop in net financial requirements, led to a $ 174 000 000 decrease in the government's cash position in 1987-1988, whereas the initial forecast was a reduction of $ 100 000 000.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF FINANCIAL TRANSACTIONS
(in millions of dollars)

	1986-1987	1987-1988		
	Real Results	Budget Speech 1987-04-30	Preliminary results[1]	Changes
1. Budgetary transactions				
Revenue	25 569.7	27 680.0	28 399.0	719.0
Expenditure for the current year	– 28 388.9	– 30 080.0	– 29 900.0	180.0
Expenditure for subsequent years prerecorded in 1987-1988	—	—	– 849.0	– 849.0
Deficit	– 2 819.2	– 2 400.0	– 2 350.0	50.0
2. Non-budgetary transactions				
Investments, loans and advances	– 379.7	– 285.0	– 674.0	– 389.0
Retirement plans account	1 354.8	1 453.0	2 205.0	752.0
Provision for financing the water purification program	9.8	12.0	12.0	—
Other accounts	83.7	– 230.0	– 569.0	– 339.0
Balance	1 068.6	950.0	974.0	24.0
3. Net financial requirements	– 1 750.6	– 1 450.0	– 1 376.0	74.0
4. Financing				
Change in cash position	– 80.9	100.0	174.0	74.0
Change in long-term debt	1 831.5	1 350.0	1 202.0	– 148.0
Total	**1 750.6**	**1 450.0**	**1 376.0**	**– 74.0**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

1 The financial data for 1987-1988 shown in this table are based on results recorded from April 1987 to February 1988, and on an estimate, as at April 22, 1988, of revenue and expenditure to be posted up to the closing of the books on 1987-1988 transactions, in keeping with the accounting practices in effect.

Budgetary revenue

Revenue up 11.1 %

For the 1987-1988 fiscal year, budgetary revenue totalled $ 28 399 000 000, an 11.1 % increase compared to 5.7 % the previous year. Own-source revenue increased by 12.8 % while federal transfers grew by 5.3 %. Own-source revenue was $ 963 000 000 higher than forecast in the Budget Speech on April 30, 1987, while federal government transfers decreased by $ 244 000 000.

SUMMARY OF THE EVOLUTION OF OWN-SOURCE REVENUE

	1986-1987	1987-1988			
		Budget Speech 1987-04-30	Preliminary results	Changes compared to Budget	Changes compared to 1986-1987
			(in millions of dollars)		(%)
Personal income tax	8 427.7	8 995.0	9 631.0	636.0	14.3
Corporate tax	1 216.9	1 222.0	1 483.0	261.0	21.9
Retail sales tax	3 624.3	3 812.0	3 997.0	185.0	10.3
Interest	245.8	383.0	213.0	– 170.0	– 13.3
Fines, confiscations and recoveries	159.4	435.0	238.0	– 197.0	49.3
Hydro-Québec	303.0	337.0	508.0	171.0	67.7
Other	5 720.5	6 070.0	6 147.0	77.0	7.5
Total own-source revenue	**19 697.6**	**21 254.0**	**22 217.0**	**963.0**	**12.8**

A number of factors account for the $ 963 000 000 upward revision of own-source revenue. Improvements in the economy, particularly in the evolution of personal income, corporate profits and retail sales, compared to what was forecast in the Budget Speech, were a determining factor. This accounts for most of the additional $ 636 000 000 in personal income tax, $ 261 000 000 in corporate tax and $ 185 000 000 in retail sales tax.

The increase in revenue from personal income tax is also due to the cost of certain tax measures introduced as of January 1, 1986, which was lower than expected. This difference became apparent following the analysis in 1987-1988 of income tax returns for 1986.

The drop in the revenue from interest results mainly from the fact that the interest on certain accounts receivable of the ministère du Revenu will only be updated during the 1988-1989 fiscal year.

Revenue from recoveries dropped because Québec's share in the federal export duty on lumber products was posted as a transfer payment from the federal government rather than as own-source revenue, and the Régie de l'assurance automobile du Québec's contribution to capital expenditures for road safety was carried over to coming fiscal years.

The $ 171 000 000 increase in revenue from Hydro-Québec is mostly due to the increased volume of sales of electricity and more favourable rates of exchange, which reduced the debt service. Like the evolution of the price of oil, these factors contributed to an increase in the net profits of the corporation in 1987.

SUMMARY OF THE EVOLUTION OF TRANSFERS FROM THE GOVERNMENT OF CANADA

	1986-1987	1987-1988			
		Budget Speech 1987-04-30	Preliminary results	Changes compared to Budget	Changes compared to 1986-1987
			(in millions of dollars)		(%)
Equalization	2 747.8	3 026.0	3 091.0	65.0	12.5
Other transfers related to the fiscal arrangements	1 821.9	1 726.0	1 682.0	– 44.0	– 7.7
Contributions to welfare programs	1 107.8	1 156.0	1 032.0	– 124.0	– 6.8
Other programs	194.6	518.0	377.0	– 141.0	93.7
Total Government of Canada transfers	**5 872.1**	**6 426.0**	**6 182.0**	**– 244.0**	**5.3**

Preliminary figures indicate that federal transfers dropped by $ 244 000 000 compared to the forecast in the last Budget Speech, since the increase in equalization payments compensated for only a part of the reduction in all other federal transfer payments.

Equalization revenue amounted to $ 3 091 000 000, $ 65 000 000 more than forecast in April 1987. This increase is essentially a reflection of the rise in provincial revenue subject to equalization, following the better-than-expected performance of the Canadian economy.

The $ 44 000 000 downward revision of other transfers related to fiscal arrangements is the result of lower-than-expected payments to finance the health and post-secondary education programs. This situation in turn derives principally from a rise in the fiscal transfer associated with personal income tax and corporate tax, which reduced the financial transfer linked to these programs by the same amount.

The $ 124 000 000 decrease in contributions to welfare programs is mainly the result of the improvement in the economic situation, which helped to reduce social aid costs and related federal contributions, and of the settlement of various adjustments from previous years.

The $ 141 000 000 reduction in other programs was the result to a large measure of the amendments made in the spring of 1987 to the Act respecting the Société d'habitation du Québec, which reduced both revenue and expenditure by $ 140 000 000, and of changes to the method of accounting for revenue related to Québec's share of the federal duty on lumber exports. These accounting adjustments were initially to be reflected by a $ 36 000 000 drop in federal transfers compared to the forecast in the Budget Speech. This drop was changed to $ 87 000 000 following a reevaluation of the yield from the federal duty because the volume and price of the lumber exported to the United States were lower than initially expected. The remaining reduction in the other programs may be explained basically by a reduction in the amounts expected as a result of the signing of the federal-provincial agreements on the Young Offenders Act and the Vocational Rehabilitation of Disabled Persons Act.

Budgetary expenditure

Preliminary results indicate budgetary expenditure of $ 29 900 000 000 attributable to 1987-1988, $ 40 000 000 less than the forecast in the Budget Speech of April 30, 1987, which was reduced by $ 140 000 000 to reflect the amendments made to the Act respecting the Société d'habitation du Québec in the spring of 1987. This is an annual increase of 5.3% compared to 3.1% in 1986-1987.

SUMMARY OF THE EVOLUTION OF EXPENDITURE
(in millions of dollars)

			1987-1988
	Budget Speech 1987-04-30	Preliminary results	Changes
EXPENDITURE FOR THE CURRENT YEAR			
Initial estimates	30 325.0	30 325.0	—
Plus:			
□ Supplementary estimates of June 18, 1987	230.0 [1]	256.8	26.8
□ Supplementary estimates of March 17, 1988	—	55.0 [3]	55.0
□ Supplementary estimates authorized under specific legislative provisions	—	5.0	5.0
□ Overruns on permanent appropriations	—	110.6	110.6
Less:			
□ Transfers of budget appropriations to investments, loans and advances	—	– 19.5	– 19.5
□ Lapsed appropriations	– 475.0 [2]	– 832.9 [4]	– 357.9
Total expenditure for current year	30 080.0	29 900.0	– 180.0
Total 1986-1987 expenditure		28 388.9	
% change		5.3	
EXPENDITURE FOR SUBSEQUENT YEARS PRERECORDED IN 1987-1988		849.0	
TOTAL EXPENDITURE RECORDED IN 1987-1988		30 749.0	

1 Additional expenditures announced in the Budget Speech.

2 Lapsed appropriations announced in the Budget Speech.

3 Excluding $306 100 000 intended for prerecording expenditures in 1987-1988 for the following year.

4 Including $117 300 000 which has been reallocated in order to prerecord in 1987-1988 expenditures for the following year.

Expenditure down $ 180 000 000 compared to Budget forecast

Expenditures of $ 30 080 000 000 were forecast in the Budget Speech of April 30, 1987, $ 180 000 000 more than the preliminary figures. This variation is due mainly to a $ 357 900 000 increase in lapsed appropriations, and an overrun of $ 110 600 000 in permanent appropriations, $ 40 000 000 of which went to services ensured by the Régie de l'assurance-maladie du Québec, a reflection of the increase in the cost of the services rendered.

Supplementary appropriations of $ 256 800 000 were adopted by the National Assembly in June 1987, mainly to cover the additional expenditures announced in the Budget Speech. The measures outlined on April 30, 1987 dealt in particular with the regional development fund, the municipal roads network, post-secondary education, health and social services and the

provision for bad debts of the ministère du Revenu. At the same time, reductions were announced in certain expenditures, resulting mainly from revised economic parameters and the decision to draw specific amounts in lapsed appropriations from the day-to-day management of government expenditure.

The supplementary appropriations in the amount of $ 55 000 000 authorized last March to cover expenditure attributable to 1987-1988 consisted of $ 30 000 000 ticketed as financial assistance for the Commission de la santé et de la sécurité du travail and $ 25 000 000 made available to the contingency fund of the ministère des Finances to cover year-end expenditures of the departments for fiscal 1987-1988.

Unexpended budgetary appropriations for 1987-1988 amounted to $ 852 400 000, $ 19 500 000 of which were transferred to investments, loans and advances. The amendments made to the Act respecting the Société d'habitation du Québec in the spring of 1987 had a major effect on lapsed appropriations, generating an additional $ 140 000 000, as did the $ 77 000 000 drop in expenditure for the social aid program, in large part due to a decrease in the number of beneficiaries. Lapsed appropriations in the debt service are estimated at $ 80 600 000. Expenditures chargeable to the current year for establishments in the health and social services and education networks were $ 27 900 000 and $ 12 600 000 lower than forecast respectively. Moreover, the advance payment of a subsidy to Sidbec in 1986-1987 and a reduction in applications under the programs administered by the Société de développement industriel du Québec and the ministère de l'Industrie et du Commerce generated lapsed appropriations of $ 77 200 000 in subsidies to assist business. In addition, the cost of salaries and other remuneration for public service employees was $ 28 000 000 less than forecast.

The amount of the regular lapsed appropriations of the various departments explains the balance, which amounted to $ 389 600 000, or 1.3% of total authorized appropriations, a proportion comparable to that of recent years.

Prerecording of $ 849 000 000 in expenditures

Prerecording of expenditures amounting to $ 849 000 000 that the government would normally have assumed in future years brings total expenditure entered in 1987-1988 to $ 30 749 000 000. Prerecorded amounts consisted of $ 176 000 000 paid out in social aid on March 31, 1988 instead of April 1 because the banks and financial institutions were closed for Easter on April 1, 2 and 3, and $ 673 000 000 in government contributions for past service under the public sector retirement plans, which, for all practical purposes, is an old debt recorded in the books as annual amortization. Additional appropriations of $ 306 100 000 submitted to the National Assembly last March were used to this end, along with $ 117 300 000 which would otherwise have lapsed in the programs involved.

Non-budgetary transactions

A $ 974 000 000 surplus in non-budgetary transactions

The surplus of non-budgetary transactions totals $ 974 000 000 in the preliminary figures, or $ 24 000 000 more than forecast in the Budget Speech of April 30, 1987. These figures reflect additional financial requirements of $ 389 000 000 for investments, loans and advances, and $ 339 000 000 for other non-budgetary accounts, which are more than offset by an increase of $ 752 000 000 in the surplus of the retirement plans account.

SUMMARY OF NON-BUDGETARY TRANSACTIONS, 1987-1988
(In millions of dollars)

	Budget Speech 1987-04-30	Preliminary results	Changes
1. Investments, loans and advances			
Enterprises of the gouvernement du Québec			
□ Share capital and invested capital	– 230.3	– 679.4	– 449.1
□ Loans and advances	– 31.6	22.7	54.3
Subtotal	– 261.9	– 656.7	– 394.8
Loans and advances to municipalities, municipal agencies, individuals, corporations and others	– 23.1	– 17.3	5.8
Total investments, loans and advances	– 285.0	– 674.0	– 389.0
2. Retirement plans account	1 453.0	2 205.0	752.0
3. Provision for financing the water purification program	12.0	12.0	—
4. Other accounts	– 230.0	– 569.0	– 339.0
5. Balance	950.0	974.0	24.0

Note : A negative entry indicates a financial requirement and a positive entry, a source of financing.

In regard to investments in the form of share capital and other capital invested in government enterprises, the figures show an increase of $ 449 100 000 compared to initial estimates. This variation is explained mainly by a net increase of $ 468 700 000 in the profits of government corporations to be consolidated without corresponding payment of dividends, notably as a result of the upward revision of $ 171 000 000 in the net profits of Hydro-Québec in 1987 and the revision to $ 20 000 000 of dividends declared following privatization transactions. The reduction of $ 54 300 000 for loans and advances to government enterprises is mainly attributable to the deferment of payments of $ 40 000 000 to Rexfor and to the repayment by the Société générale de financement of an advance of $ 15 000 000, granted previously by the government.

The surplus in the retirement plans account totals $ 2 205 000 000, an increase of $ 752 000 000 over the figure announced in the Budget Speech. The rise particularly reflects the prerecording of a contribution of $ 673 000 000 by the government for past service under the retirement plans, which would normally have been entered in subsequent fiscal years. Moreover, an increase of $ 79 000 000, attributable to transactions in 1987-1988, is notably the combined result of the increase in contributions by the government recorded as expenditure for interest applicable to the balance of the account, higher-than-anticipated employee contributions that generated a corresponding rise in the government's contribution, and a slight increase in the benefits paid from the account.

The transactions related to other non-budgetary accounts essentially represent year-to-year changes in the accounts and accrued interest payable and receivable by the government. These accounts normally change according to the overall volume of financial transactions; however, they may be

subject to significant variations which are difficult to anticipate from one year to the next, since they depend essentially on the timing of collection and disbursement transactions. For the year 1987-1988, the balance of other accounts shows a shortfall of $ 569 000 000, compared to the $ 230 000 000 forecast in the Budget Speech. This deterioration is explained essentially by an increase of $ 279 000 000 in accounts receivable, arising mainly from a combination of three factors: deferment to the next fiscal year of the updating of interest on certain accounts receivable of the ministère du Revenu, the increase in anticipated remittances from agents in April, which represent amounts they collected in March, and the increase in accounts receivable from the Government of Canada, following the tardy signing of certain federal-provincial agreements.

Repayment of borrowings

Repayment of borrowings for fiscal 1987-1988 amounted to $ 2 010 000 000, compared to $ 2 577 575 000 the preceding year. These preliminary figures show an increase of $ 710 000 000 over the estimate in the Budget Speech. This variation is the result of two main factors. First, in order to reduce the overall risk related to its debt and given the possibility of renegotiating under more favourable conditions a number of loans already in place, the government took advantage of its call privilege to renegotiate borrowings of $ 687 500 000, which were not to fall due during the year. Of this amount, $ 68 000 000 had been integrated into the initial forecast.

Redemptions of savings bonds totalled $ 624 000 000, an increase of $ 94 000 000 compared to the figure anticipated in the Budget Speech. This rise is due to more requests than anticipated by bondholders for redemption prior to maturity, given the evolution of interest rates on competing investment instruments. Savings bonds outstanding as at March 31, 1988 amounted to $ 2 727 600 000.

TOTAL SAVINGS BONDS OUTSTANDING
(In millions of dollars)

Total outstanding as at March 31, 1987		2 805.7
Plus: 1986 issue	1.5 [1]	
1987 issue	544.4 [2]	
		545.9
Less : Redemptions		624.0
Total outstanding as at March 31, 1988		**2 727.6**

1 Amount received after March 31, 1987, from the issue of $ 575 381 000.

2 Amount received as at March 31, 1988, from the issue of $ 546 000 000.

Financing

Large decrease in government borrowings

The Québec government borrowed $ 3 199 600 000 in fiscal 1987-1988, a decrease of $ 1 196 400 000 compared to the preceding year. This sizable variation is mainly due to a reduction of $ 576 500 000 in optional refinancing transactions, a decrease of $ 374 600 000 in net financial requirements and a difference of $ 254 900 000 in regard to the variation in the cash position. The drop in optional refinancing is explained by the fact that the government had made a number of major changes the preceding year in the structure of its debt.

The amounts borrowed and the reduction of $ 174 000 000 in cash position cover regular gross financing requirements of $ 2 698 500 000 and optional refinancing of $ 687 500 000 by the government to take advantage of more favourable financing terms. The decrease in the cash position is attributable to the advance financing of $ 100 000 000 late in the 1986-1987 fiscal year and to a reduction in the program of borrowings initially anticipated for 1987-1988.

The following table summarizes the borrowings made in 1987-1988.

SUMMARY OF BORROWINGS

Market and currency	Regular gross borrowings		Optional refinancing	
	(millions $)	(%)	(millions $)	(%)
Canadian dollars				
Canadian market				
Public issues				
Savings bonds	545.9	21.7		
Negotiable bonds	300.0	11.9		
Private issues				
Caisse de dépôt et placement du Québec	1 021.1	40.7	50.0	7.3
Other private borrowings	217.7	8.7		
Asian market (private borrowing)	100.0	4.0		
Total	2 184.7	87.0	50.0	7.3
Other currencies				
Public issues				
German Euromark market	216.5	8.6		
Euroyen market	42.1	1.7	245.6	35.7
Swiss franc market	28.2	1.1	146.3	21.3
Private issues				
Syndicate borrowings in yen	40.6	1.6	245.6	35.7
Total	327.4	13.0	637.5	92.7
Grand total	**2 512.1**	**100.0**	**687.5**	**100.0**

It will be noted that 87 % of the regular gross borrowings were made in Canadian dollars. This was possible particularly because of greater recourse to the private capital market.

The optional refinancing was, for the most part, carried out in foreign currency, which met the objective of refinancing in the same currency the borrowings that were repaid prior to maturity in order to renegotiate them under more favourable conditions. This optional refinancing will make it possible for the government to achieve substantial net savings in interest payments, while extending by close to 10 years the average maturity of refinanced borrowings.

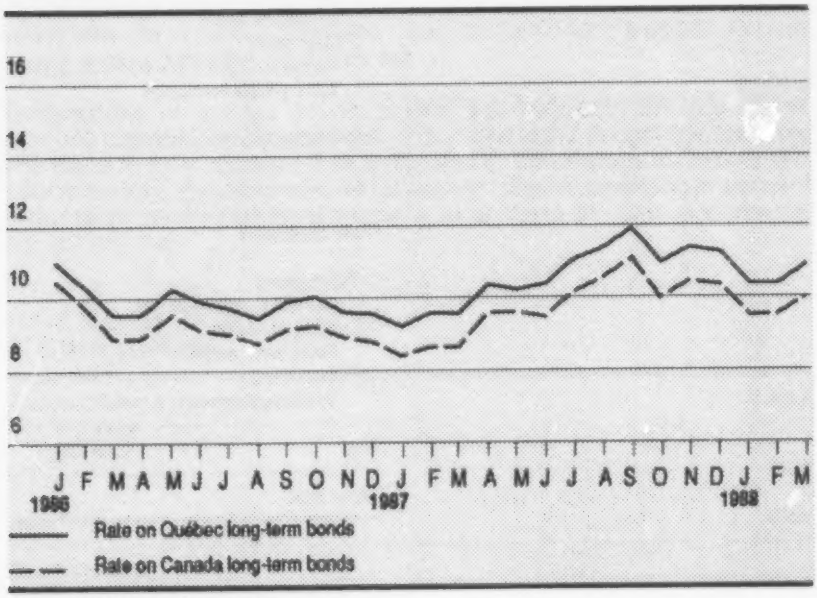
Although there was a substantial reduction in the funds available that mature in more than 10 years, the Québec government was able to obtain an average period of maturity greater than 16 years for all its new borrowings, excluding savings bonds. In particular, it was able to contract borrowings for 25 years in

yen and 16 years in Swiss francs, as well as borrowings with an average maturity of more than 16 years on the Canadian market.

The year's financing transactions entailed no drawing on the credit agreements available to the Québec government. Therefore, the amounts available as at March 31, 1988 totalled $ 1 180 000 000, including a maximum of $ 930 000 000 which may be drawn in seven different currencies.

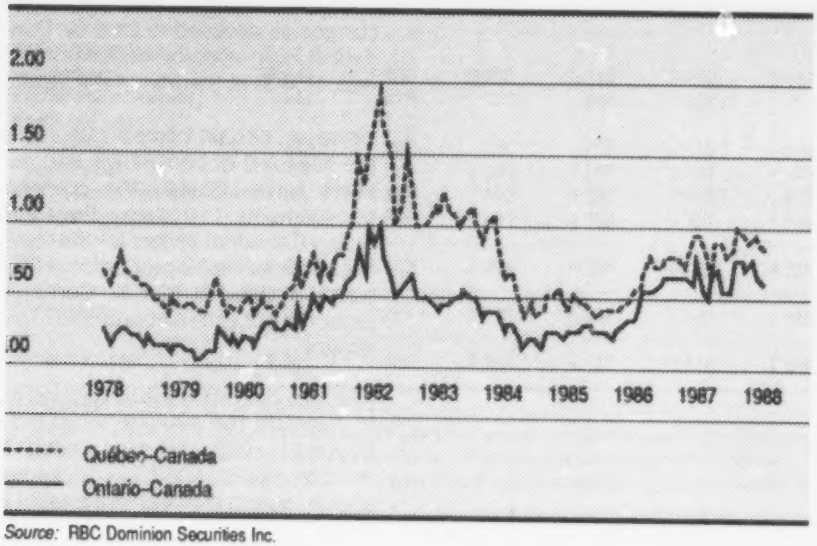
The widening of the spreads at the end of 1986-1987 between the market price to the "safest" borrowers and the price to other borrowers was maintained in 1987-1988. This phenomenon, which affects all borrowers, in Canada as elsewhere, is attributable to several factors, including investor expectations that interest rates would increase, which induced them to invest more heavily in securities that made it possible for them to swiftly adjust the composition of their investment portfolios, and the climate of uncertainty that accompanied the major readjustment of the stock markets.

YIELD ON QUÉBEC AND CANADA LONG-TERM SECURITIES
1986, 1987 AND 1988
(as a percentage)



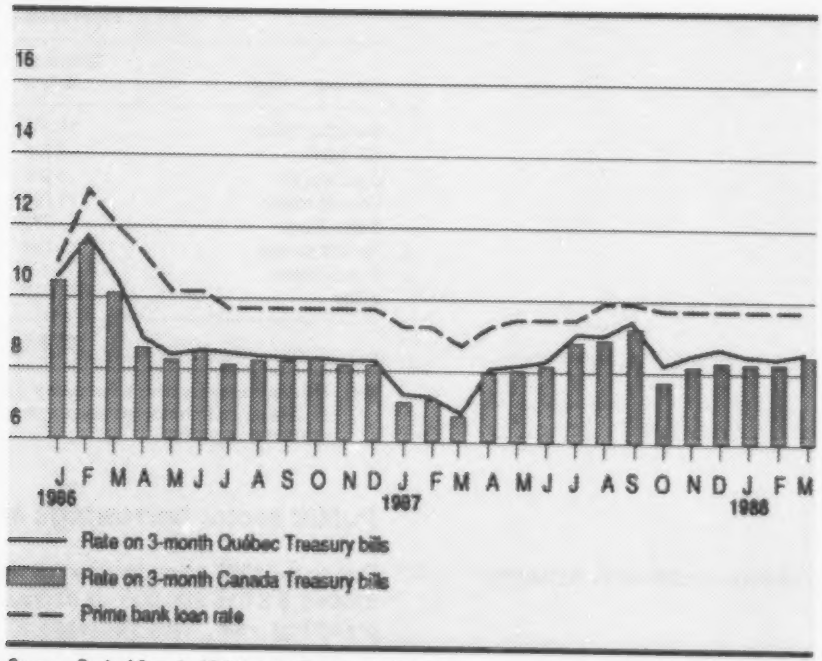
Source: RBC Dominion Securities Inc.

YIELD SPREAD ON QUÉBEC LONG-TERM SECURITIES AND OTHER SECURITIES
1978 TO 1988
(In percentage points)



Source: RBC Dominion Securities Inc.

YIELD ON SHORT-TERM SECURITIES
1986, 1987 AND 1988
(as a percentage)



Sources: Bank of Canada, Ministère des Finances du Québec.

The debt

Increase in proportion of debt in Canadian dollars

The Québec government's debt, including total outstanding Treasury bills, stood at $ 26 815 000 000 as at March 31, 1988. The proportion of the debt in Canadian dollars rose in 1987-1988 from 66.4 % to 68.4 %, while that in foreign currencies declined to 31.6 %. During the same period, the proportion of the debt at fixed rates increased from 81.4 % to 82.4 %, while that at floating rates was 17.6 % at the end of the fiscal year.

However, certain interest rate and currency exchange transactions related to the servicing of borrowings and made by the government over the past few years have enabled the government to alter the structure of its debt commitments. In this way, the share of the government's commitments to be met in Canadian dollars for the repayment of its debt was increased to 69.7 % of its debt, while the proportion of its commitments bearing interest at fixed rates was increased to 82.6 %. Currency exchange contracts also increased the proportion of commitments to be met in Swiss francs and decreased that in US dollars.

The financing transactions carried out during the year will have made it possible to maintain the average weighted maturity of the government's debt as at March 31, 1988, excluding savings bonds and Treasury bills, at the same level as at March 31, 1987, i.e. 10.3 years. Savings bonds outstanding decreased slightly during the year to a total of $ 2 727 600 000 as at March 31, 1988, i.e. 10.2 % of the total government debt, while Treasury bills outstanding totalled $ 1 755 000 000, or 6.5 % of the debt, at the end of the year.

GOVERNMENT DEBT
ESTIMATE AS AT MARCH 31, 1988

	Before exchange transactions		After exchange transactions	
Currency of issue	Millions of dollars	Proportion of total (%)	Millions of dollars	Proportion of total (%)
Canadian dollars	18 348	68.4	18 680	69.7
US dollars	4 146	15.5	3 809	14.2
Japanese yen	1 989	7.4	1 889	7.0
German marks	1 060	4.0	951	3.5
Swiss francs	770	2.8	1 049	3.9
Pounds sterling	249	0.9	184	0.7
French francs	176	0.7	176	0.7
ECUs	77	0.3	77	0.3
	26 815	100.0	26 815	100.0

Note: The debt in foreign currency is expressed in the Canadian equivalent, at the exchange rates effective at March 31, 1988, except for borrowings under currency exchange contracts which are expressed at the exchange rates specified in the contracts.

Public sector borrowings and investments

Decrease in public sector borrowings

During the 1987 calendar year, gross long-term borrowings in the public sector totalled $ 8 015 000 000, a decrease of $ 1 646 000 000 in relation to the preceding year. This decrease in gross borrowings is attributable to the gouvernement du Québec and government corporations.

LONG-TERM PUBLIC SECTOR BORROWINGS
(in millions of dollars)

	Calendar year					
	1982	1983	1984	1985	1986	1987 [1]
Gross borrowings						
Government [2]	2 840	2 407	3 209	3 015	4 092	2 852
Educational institutions [3]	244	421	791	688	668	657
Health and welfare institutions	233	92	134	212	148	280
Hydro-Québec [2]	2 276	1 792	1 100	1 602	2 199	1 833
Other government corporations	329	502	599	1 397	1 103	623
Municipal agencies	1 084	938	1 201	1 330	1 451	1 770
Total	**7 006**	**6 152**	**7 034**	**8 244**	**9 661**	**8 015**
Repayments	**2 054**	**2 267**	**3 470**	**4 007**	**5 242**	**5 051**
Net borrowings	**4 952**	**3 885**	**3 564**	**4 237**	**4 419**	**2 964**

1 Preliminary results.

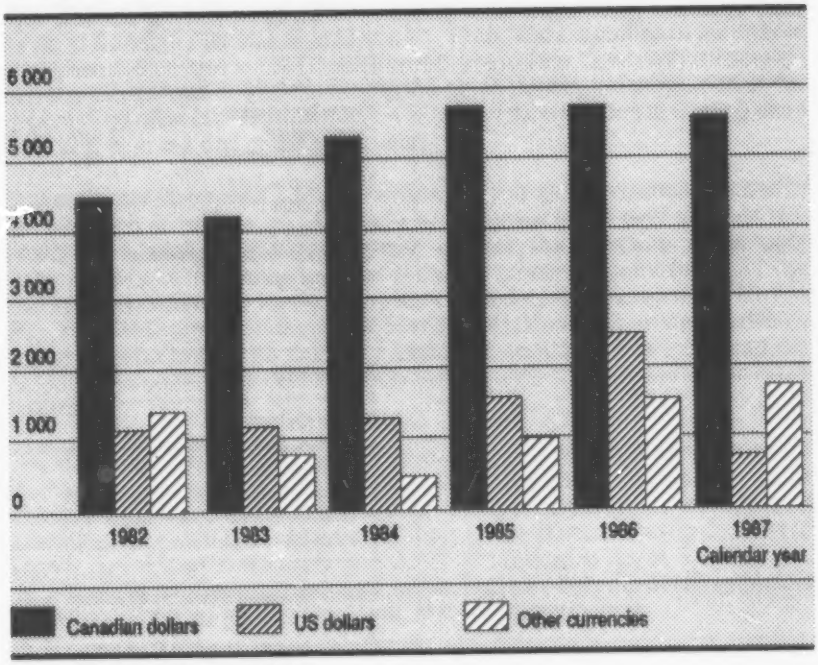
2 Amounts received during the calendar year, excluding less-than-one-year net borrowings as long-term financing transactions, which explains the difference between this list and the list of borrowings given later in this text.

3 Including all the universities in Québec, while the statistics of the Bureau de la statistique du Québec consider only the Université du Québec.

Source: Ministère des Finances du Québec.

Gross borrowings in Canadian dollars totalled $ 5 572 000 000 in 1987, which represents 70 % of total public sector borrowings. Gross borrowings in American dollars reached $ 724 000 000, or 9 % of total gross borrowings; borrowings in other currencies amounted to $ 1 719 000 000, or 21 % of the total.

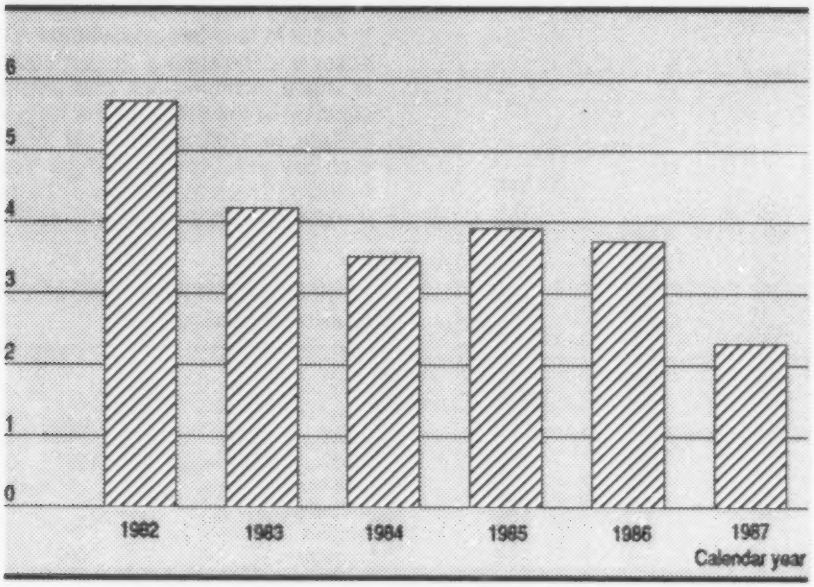
GROSS PUBLIC SECTOR BORROWINGS BY CURRENCY
(In millions of dollars)



Source: Ministère des Finances du Québec.

Taking into account refinancing and repayments, net public sector borrowings totalled $ 2 964 000 000 in 1987. The net borrowings represented 2.3 % of the gross domestic product in 1987, significantly less than the average for the five preceding years.

NET PUBLIC SECTOR BORROWINGS COMPARED TO GROSS DOMESTIC PRODUCT
(as a percentage)



Source: Ministère des Finances du Québec.

PUBLIC SECTOR INVESTMENTS
(in millions of dollars)

	Calendar year					
	1982	1983	1984	1985	1986	1987 [1]
Government [2]	712	742	847	822	664	783
Educational institutions [3]	224	289	298	321	296	251
Health and welfare institutions [3]	148	182	164	248	249	266
Hydro-Québec [4]	2 546	2 248	1 681	1 615	1 537	1 690
Other government corporations [5]	342	369	313	676	663	608
Municipal agencies [6]	902	953	1 130	1 763	1 503	1 529
Total	**4 874**	**4 783**	**4 433**	**5 445**	**4 912**	**5 127**

1 Preliminary results.

2 Government investments include its capital expenditures as well as grants and loans for investments made available to economic agents outside the public sector. Financial investments within the public sector are excluded.
Sources: The Estimates and the Public Accounts.

3 Investments by school boards, colleges and universities and health and welfare institutions include only capital expenditures for new projects, as defined for the purposes of economic accounting.
Source: Bureau de la statistique du Québec.

4 Source: Hydro-Québec.

5 Government corporation investments correspond to an increase in long-term assets. Investments of the Société québécoise d'assainissement des eaux are included under "municipal agencies".
Sources: Financial statements of government corporations.

6 Investments by municipalities, urban and regional communities and transport commissions and corporations include only capital expenditures for new projects, as defined for the purposes of economic accounting.
Source: Ministère des Finances du Québec.

In 1987, public sector investments totalled $ 5 127 000 000, an increase of 4.4 % compared to 1986. As the preceding table shows, this increase is attributable to the gouvernement du Québec and to Hydro-Québec.

In order to take into account the relation between the government's financial policy and the state of the various sectors under its jurisdiction, comparative changes in borrowings and investments must take into consideration the situation of the public sector as a whole. Total net public sector borrowings include, in addition to the net long-term borrowings mentioned earlier, less-than-one-year net borrowings made as long-term financing transactions, including Treasury bills issued by the government, as well as borrowings from the government's retirement plans account.

TOTAL NET BORROWINGS AND INVESTMENTS BY THE PUBLIC SECTOR (In millions of dollars)

	Calendar year					
	1982	1983	1984	1985	1986	1987[1]
Net long-term borrowings	4 952	3 885	3 564	4 237	4 419	2 964
Less-than-one-year net borrowings made as long-term financing transactions	309	636	– 20	506	– 561	224
Surplus in the government retirement plans account	1 048	1 027	1 153	1 247	1 313	1 498
Total net borrowings	6 309	5 548	4 697	5 990	5 171	4 686
Investments	4 874	4 783	4 433	5 445	4 912	5 127
Ratio	1.29	1.16	1.06	1.10	1.05	0.91

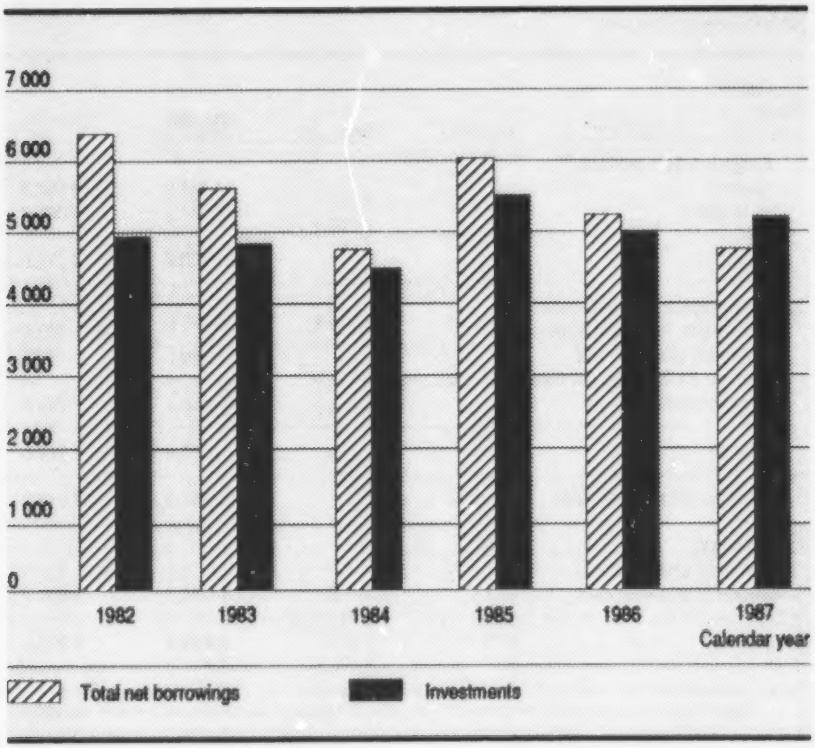
1 Preliminary results.

Source: Ministère des Finances du Québec.

Investments outrun net borrowings for first time since 1979

Total net public sector borrowings in 1987 are estimated at $ 4 686 000 000, a decrease of $ 485 000 000 compared to 1986. Thus, the ratio of total net borrowings to investments was 0.91 in 1987. For the first time since 1979, investments were greater than net borrowings.

TOTAL NET BORROWINGS AND INVESTMENTS BY THE PUBLIC SECTOR
(In millions of dollars)



Source: Ministère des Finances du Québec.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
SUMMARY
(In millions of dollars)

	1983-1984	1984-1985	1985-1986	1986-1987	Preliminary results 1987-1988 [1]
1. Budgetary transactions					
Revenue	21 847.0	22 265.3	24 185.5	25 569.7	28 399.0
Expenditure	– 23 947.8	– 26 061.0	– 27 529.4	– 28 388.9	– 30 749.0 [2]
Deficit	**– 2 100.8**	**– 3 795.7**	**– 3 343.9**	**– 2 819.2**	**– 2 350.0**
2. Non-budgetary transactions					
Investments, loans and advances	– 671.7	– 167.4	40.4	– 379.7	– 674.0
Retirement plans account	1 056.7	1 183.5	1 269.0	1 354.8	2 205.0
Provision for financing the water purification program	—	—	4.3	9.8	12.0
Other accounts	– 535.4	766.4	290.2	83.7	– 569.0
Balance	**– 150.4**	**1 782.5**	**1 603.9**	**1 068.6**	**974.0**
3. Net financial requirements	**– 2 251.2**	**– 2 013.2**	**– 1 740.0**	**– 1 750.6**	**– 1 376.0**
4. Financing					
Change in cash position	– 13.7	– 211.0	– 18.0	– 80.9	174.0
Change in long-term debt	2 264.9	2 224.2	1 758.0	1 831.5	1 202.0
Total	**2 251.2**	**2 013.2**	**1 740.0**	**1 750.6**	**1 376.0**

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease. For comparison purposes, the financial data shown are based on the budgetary and financial structure in force for the 1988-1989 fiscal year.

1 The financial data for 1987-1988 shown in this table are based on results recorded from April 1987 to February 1988, and on an estimate, as at April 22, 1988, of revenue and expenditure to be posted on 1987-1988 transactions up to the closing of the books, in keeping with the accounting practices in effect.

2 Including $ 849 000 000 in expenditures for subsequent years prerecorded in 1987-1988.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
BUDGETARY REVENUE
(In millions of dollars)

	1983-1984	1984-1985	1985-1986	1986-1987	Preliminary results 1987-1988
1. Income and property taxes					
Personal income tax	6 763.7	7 126.9	7 966.4	8 427.7	9 631.0
Employer contributions to health services fund	1 440.8	1 509.5	1 600.8	1 828.9	2 048.0
Corporate taxes [1]	860.3	996.4	1 082.0	1 216.9	1 483.0
Succession duties	46.7	45.1	30.5	9.2	– 1.0
	9 111.5	**9 677.9**	**10 679.7**	**11 482.7**	**13 161.0**
2. Consumption taxes					
Retail sales	2 277.4	2 575.1	3 175.7	3 624.3	3 997.0
Fuel	1 207.5	1 030.4	1 084.1	1 144.7	1 189.0
Tobacco	312.6	373.5	534.8	569.3	543.0
Meals and hotel	274.5	303.4	327.7	361.3	399.0
Other [2]	102.6	112.4	126.9	138.8	148.0
	4 174.6	**4 394.8**	**5 249.2**	**5 838.4**	**6 276.0**
3. Duties and permits					
Motor vehicles	259.6	273.3	283.9	313.9	344.0
Alcoholic beverages	65.0	67.2	70.1	74.5	57.0
Natural resources [3]	83.1	96.2	93.3	94.2	124.0
Pari-mutuel	31.1	29.7	26.4	27.0	27.0
Other	71.8	70.9	84.3	92.0	106.0
	510.6	**537.3**	**558.0**	**601.6**	**658.0**
4. Miscellaneous					
Sale of goods and services	297.7	225.1	207.9	264.4	228.0
Interest	277.5	270.1	214.7	245.8	213.0
Fines, confiscations and recoveries	108.2	92.7	116.3	159.4	238.0
	683.4	**587.9**	**538.9**	**669.6**	**679.0**
5. Revenue from government corporations [4]					
Société des alcools du Québec	321.8	340.5	356.8	360.7	370.0
Loto-Québec	223.1	252.9	302.7	360.4	370.0
Hydro-Québec	707.2	300.8	209.0	303.0	508.0
Other government corporations	– 135.3	– 87.5	70.2	81.2	195.0
	1 116.8	**806.7**	**938.7**	**1 105.3**	**1 443.0**
Total own-source revenue	**15 596,9**	**16 004.6**	**17 964,5**	**19 697,6**	**22 217,0**
6. Government of Canada transfers					
Equalization	3 227.4	3 101.6	2 854.1	2 747.8	3 091.0
Other transfers related to fiscal arrangements	1 720.8	1 833.4	1 941.7	1 821.9	1 682.0
Contributions to welfare programs	1 043.7	1 147.8	1 198.3	1 107.8	1 032.0
Other programs	258.2	177.9	226.9	194.6	377.0
Total Government of Canada transfers	**6 250.1**	**6 260.7**	**6 221.0**	**5 872.1**	**6 182.0**
Total budgetary revenue	**21 847.0**	**22 265.3**	**24 185.5**	**25 569.7**	**28 399.0**

1 Includes tax on corporate profits, on capital and the corresponding tax on premiums for insurance companies.

2 Includes tax on telecommunications and on electronic advertising.

3 Includes forest, mining and water resources.

4 Includes the dividends declared and the change in surpluses or deficits accumulated by government corporations, which is consolidated with a corresponding reevaluation of the investment held by the government.

APPENDIX C

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
BUDGETARY EXPENDITURE
(in millions of dollars)

Departments and agencies	1983-1984	1984-1985	1985-1986	1986-1987	Preliminary results 1987-1988
Affaires culturelles	154.5	178.8	205.2	194.9	217.2
Affaires municipales	622.0	583.5	615.2	656.0	591.1
Agriculture, Pêcheries et Alimentation	416.3	458.6	517.7	505.9	546.0
Approvisionnements et Services	45.7	173.7	61.1	60.4	62.3
Assemblée nationale	36.5	42.9	59.5	51.9	54.1
Commerce extérieur et Développement technologique	19.7	30.4	42.6	39.1	44.5
Communautés culturelles et Immigration	24.1	27.8	28.7	28.5	33.5
Communications	167.0	181.1	199.4	196.4	181.5
Conseil exécutif	25.5	37.0	47.2	33.8	33.5
Conseil du trésor	12 3	13.1	16.0	16.9	17.2
Éducation	4 216.2	4 408.2	4 586.2	4 715.9	5 058.8
Énergie et Ressources	284.0	347.6	360.4	358.3	387.1
Enseignement supérieur et Science	2 071.0	2 193.6	2 316.2	2 442.5	2 653.5
Environnement	123.5	141.4	190.0	253.0	293.3
Finances	2 143.3	2 511.5	2 761.8	2 845.1	2 875.1
Industrie et Commerce	258.4	327.1	330.4	324.7	222.9
Justice	241.9	257.4	321.3	327.7	375.7
Loisir, Chasse et Pêche	217.7	231.9	235.5	203.8	199.9
Main-d'oeuvre et Sécurité du revenu	2 429.6	2 608.9	2 858.6	2 897.0	3 081.2
Office de planification et de développement du Québec	44.3	52.8	46.8	39.1	43.5
Organisme relevant du ministre délégué à l'Administration	663.8	764.9	839.2	924.9	1 567.3
Organismes relevant de la ministre déléguée à la Condition féminine	50.3	56.3	73.4	82.5	95.0
Organismes relevant de la Vice-présidente du Conseil exécutif	154.7	162.1	175.7	179.9	194.0
Personnes désignées par l'Assemblée nationale	19.0	38.5	62.4	23.6	24.8
Régie de l'assurance-maladie du Québec	1 356.6	1 456.5	1 608.3	1 745.6	1 882.2
Relations internationales	41.4	46.7	54.9	53.9	61.8
Revenu	242.5	230.5	247.8	259.5	286.3
Santé et Services sociaux	5 443.2	5 951.3	6 198.8	6 579.3	7 144.5
Solliciteur général	411.1	450.3	507.2	521.4	600.9
Tourisme	40.0	68.6	75.9	69.2	68.3
Transports	1 578.4	1 619.3	1 660.8	1 596.3	1 680.3
Travail	68.8	72.9	65.5	54.8	84.6
Travaux publics et Approvisionnement	261.8	150.6	—	—	—
Subtotal	**23 885.1**	**25 875.8**	**27 369.7**	**28 281.8**	**30 661.9**
Provision for bad debts	**61.1**	**122.4**	**88.9**	**108.3**	**101.0**
Provision for losses on investments in share capital of government corporations	**1.6**	**62.8**	**70.8**	**– 1.2**	**– 13.9**
Total budgetary expenditure	**23 947.8**	**26 061.0**	**27 529.4**	**28 388.9**	**30 749.0** [1]

1 Including $ 849 000 000 in expenditures for subsequent years prerecorded in 1987-1988.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
NON-BUDGETARY TRANSACTIONS
(in millions of dollars)

	1983-1984	1984-1985	1985-1986	1986-1987	Preliminary results 1987-1988
1. Investments, loans and advances					
ENTERPRISES OF THE GOUVERNEMENT DU QUÉBEC					
SHARE CAPITAL AND INVESTED CAPITAL:					
Société de récupération, d'exploitation et de développement forestiers du Québec (REXFOR)	—	- 0.5	- 18.8	- 27.0	- 2.5
Société générale de financement (SGF)	- 31.0	- 51.5	- 49.3	- 20.0	—
Société nationale de l'amiante (SNA)	- 10.7	—	—	—	—
Société québécoise d'exploration minière (SOQUEM)	- 10.0	- 11.6	—	—	—
Société québécoise d'initiatives agro-alimentaires (SOQUIA)	- 6.4	- 5.4	- 4.0	—	—
Société québécoise d'initiatives pétrolières (SOQUIP)	- 30.0	- 39.9	—	- 10.0	—
Other	- 31.7	- 16.5	- 22.4	- 7.1	- 1.2
	- 119.8	**- 125.4**	**- 94.5**	**- 64.1**	**- 3.7**
CHANGE IN INVESTMENT EQUITY VALUE [1]	- 525.0	- 32.9	- 162.6	- 428.8	- 675.7
	- 644.8	**- 158.3**	**- 257.1**	**- 492.9**	**- 679.4**
LOANS AND ADVANCES:					
Office du crédit agricole du Québec	12.2	11.9	160.0	—	—
Sidbec	- 12.4	- 36.8	9.6	—	- 6.2
Société de développement industriel du Québec (SDI)	- 2.3	- 0.1	- 11.0	- 36.3	- 54.5
Société immobilière du Québec (SIQ)	—	—	147.0	155.0	75.0
Other	- 5.4	13.3	- 6.8	31.9	8.4
	- 7.9	**- 11.7**	**298.8**	**150.6**	**22.7**
Total enterprises of the gouvernement du Québec	**- 652.7**	**- 170.0**	**41.7**	**- 342.3**	**- 656.7**
MUNICIPALITIES AND MUNICIPAL AGENCIES	1.6	1.5	1.5	0.3	1.4
INDIVIDUALS, CORPORATIONS AND OTHERS	- 20.6	1.1	- 2.8	- 37.7	- 18.7
Total investments, loans and advances	**- 671.7**	**- 167.4**	**40.4**	**- 379.7**	**- 674.0**

1 Net amount including the change in the provision for losses on investments in share capital of government corporations.

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
NON-BUDGETARY TRANSACTIONS (cont'd)
(in millions of dollars)

	1983-1984	1984-1985	1985-1986	1986-1987	Preliminary results 1987-1988
2. Retirement plans account					
EMPLOYER AND EMPLOYEE CONTRIBUTIONS					
Contributions by the government as employer					
RREGOP					
Current service	302.2	314.7	318.1	316.9	300.0
Past service	—	—	—	—	243.4
Interest	313.6	379.4	438.8	492.1	551.4
Other plans					
Current service	172.0	167.1	164.0	149.5	163.7
Past service	278.4	337.0	360.3	386.7	956.5
Interest	166.7	218.4	267.1	310.1	372.6
Total	**1 232.9**	**1 416.6**	**1 548.3**	**1 655.3**	**2 587.6**
Independent agencies					
Current service	5.6	4.9	5.0	5.1	5.0
Past service	17.0	17.0	17.0	17.0	17.0
Total	**22.6**	**21.9**	**22.0**	**22.1**	**22.0**
Employee contributions	160.4	153.5	148.9	219.1	175.2
Total contributions	**1 415.9**	**1 592.0**	**1 719.2**	**1 896.5**	**2 784.8**
BENEFITS AND OTHER PAYMENTS					
Benefits and refunds	– 340.2	– 389.6	– 433.2	– 511.8	– 553.5
Other outlays	– 19.0	– 18.9	– 17.0	– 29.9	– 26.3
Total	**– 359.2**	**– 408.5**	**– 450.2**	**– 541.7**	**– 579.8**
Total retirement plans account	**1 056.7**	**1 183.5**	**1 269.0**	**1 354.8**	**2 205.0**
3. Provision for financing the water purification program	**—**	**—**	**4.3**	**9.8**	**12.0**
4. Other accounts					
Cash and negotiable securities in hand and outstanding deposits	– 21.2	– 15.4	38.3	– 32.2	– 91.0
Outstanding cheques	– 108.2	89.2	38.1	– 41.7	39.0
Clearing accounts for collected taxes	– 6.0	18.5	38.5	34.0	25.0
Accounts receivable	– 139.7	18.6	– 154.0	– 273.5	– 60.0
Accrued interest receivable	4.3	1.0	4.2	0.4	—
Advances from the trust funds	2.8	3.0	1.9	– 2.4	—
Accounts payable	– 356.9	473.0	238.0	275.4	– 489.0
Accrued interest payable	89.5	178.5	85.2	123.7	79.0
Deferred expenses	—	—	—	—	– 72.0
Total other accounts	**– 535.4**	**766.4**	**290.2**	**83.7**	**– 569.0**
Total non-budgetary transactions	**– 150.4**	**1 782.5**	**1 603.9**	**1 068.6**	**974.0**

GOUVERNEMENT DU QUÉBEC
STATEMENT OF FINANCIAL TRANSACTIONS
FINANCING
(In millions of dollars)

	1983-1984	1984-1985	1985-1986	1986-1987	Preliminary results 1987-1988
1. Change in cash position	**– 13.7**	**– 211.0**	**– 18.0**	**– 80.9**	**174.0**
2. Change in long-term debt [1]					
New borrowings	2 797.0	3 281.0	2 992.5	4 396.0	3 199.6
Change in the debt resulting from the amortization of the change in foreign exchange	36.4	43.1	69.0	13.1	12.4
Repayment of borrowings	– 568.5	– 1 099.9	– 1 303.5	– 2 577.6	– 2 010.0
Total change in long-term debt	**2 264.9**	**2 224.2**	**1 758.0**	**1 831.5**	**1 202.0**
Total financing	**2 251.2**	**2 013.2**	**1 740.0**	**1 750.6**	**1 376.0**

1 Excluding the unamortized portion of the change in foreign exchange which has no effect on the government's financial transactions.

LIST OF BORROWINGS BY THE GOUVERNEMENT DU QUÉBEC IN 1987-1988

Amount in Canadian dollars [1]	Face value in foreign currency	Interest rate [2]	Date of issue	Date of maturity	Price to buyer	Yield to buyer [3]
(in millions)		%			$	%
216.5	300.0 DM	6.00 *	April 1	1997-04-01	100.50	5.84
50.0 [4]	—	8.50	April 23	1997-02-10	97.83	8.82
50.0 [4]	—	9.50	April 23	2011-09-02	98.88	9.62
287.7	30 000.0 Yen	5.00 *	May 7	1997-05-07	102.50	4.63
286.2	30 000.0 Yen	5.30	May 25	2012-05-25	100.00	5.30
1.5 [5]	—	9,00 / 6.50 *	June 1	1996-06-01	100.00	8.29 [6]
544.4 [7]	—	9,00 / 6.00 *	June 1	1997-06-01	100.00	8.33 [6]
75.0 [4]	—	10.00	June 4	1997-06-04	99.87	10.02
100.0 [4]	—	10.50	June 4	2012-06-04	99.65	10.54
174.5	200.0 SF	5.00 *	July 15	2003-07-15	100.00	4.94
25.0 [4]	—	10.50	August 13	1990-07-31	101.27	9.99
50.0 [4]	—	10.00	August 13	1997-06-04	97.99	10.33
96.9 [4]	—	10.50	August 13	2012-06-04	96.88	10.86
25.0 [4]	—	10.75	October 9	1990-10-03	99.745	10.85
24.2 [4]	—	10.75	October 9	1998-07-31	96.882	11.25
100.0 [4]	—	11.875	October 9	2012-10-09	99.802	11.90
100.0 [8]	11 130.0 Yen	5.70	October 27	1997-10-27	100.00	5.70
199.0 [4]	—	10.25	January 7	1998-04-07	99.50	10.33
201.0 [4]	—	11.00	January 7	2009-04-01	99.90	11.01
96.9	—	11.00	January 7	2009-04-01	97.25	11.34
125.0 [4]	—	11.00	February 1	2009-04-01	99.286	11.08
150.0 [4]	—	10.25	March 29	1998-04-07	101.33	10.04
200.0 [9]	—	Misc.	Varied	Varied	Misc.	Misc.
5.1 [10]	—	Misc.	Varied	2007 / 2008	100.00	Misc.
9.4 [11]	—	Misc.	Varied	Varied	Misc.	Misc.
6.3 [12]	4.9 US	Variable	Varied	Varied	100.00	Variable
3 199.6						

* Interest payable annually.

1 Canadian equivalent of face value on the date of borrowing for borrowings in foreign currency.

2 Interest payable semi-annually, except that marked with an asterisk, which is payable annually.

3 Yield to buyer is determined on the basis of interest payable every six months.

4 The Caisse de dépôt et placement du Québec subscribed fully or partly for these bond issues.

5 Amount cashed from the June 1, 1986 savings bond issue. The interest rate on these bonds was set at 8.25 % until May 31, 1987. It was subsequently set at 8.0 % on June 1, 1987, and then increased to 9.0 % on November 1, 1987 until May 31, 1988. Minimum interest will be 6.5 % until May 31, 1996.

6 Rate of return calculated for the period April 1, 1987 to March 31, 1988.

7 Amount cashed from the June 1, 1987 savings bond issue. The interest rate on these bonds was set at 8.0 % until October 31, 1987, and then increased to 9.0 % until May 31, 1988. Minimum interest will be 6.0 % from June 1, 1988 to May 31, 1997.

8 Borrowing under exchange contract.

9 Borrowings in Québec Treasury bills, part of which was subscribed by the Caisse de dépôt et placement du Québec.

10 Borrowings from the Government of Canada under the agreement on the funds collected under the Canada Pension Plan.

11 Interest capitalized on discount borrowings, including $ 7 186 416 referring to borrowings in US dollars.

12 Increase in the debt attributable to fluctuations in the exchange rate on the amount drawn in foreign currency under a credit agreement.

Note: The gouvernement du Québec has credit agreements with various banks and financial institutions for a total of $ 1 250 000 000 that can be drawn in Canadian dollars or their equivalent for up to $ 1 000 000 000 in US dollars or other currencies. At March 31, 1988, the balance available under these agreements was $ 1 180 000 000, which can be drawn in Canadian dollars or their equivalent for up to $ 930 000 000 in US dollars or other currencies.

LIST OF BORROWINGS BY HYDRO-QUÉBEC IN 1987

Amount in Canadian dollars [1]	Face value in foreign currency	Interest rate [2]	Date of issue	Date of maturity	Price to buyer	Yield to buyer [3]
(in millions)		%			$	%
334.7	250.0 US	8.25	January 15	2027-01-15	99.55	8.29
100.0	—	9.25	February 2	1996-12-02	101.625	9.00
35.0	—	9.50	February 18	1997-02-18	99.968	9.51
60.0	—	9.75	February 18	2007-02-18	99.956	9.76
100.0	—	9.25	February 23	1996-12-02	103.395	8.72
250.0 [4]	—	8.25	March 2	1992-02-25	99.20	8.45
150.0	—	9.00 *	April 21	1997-04-21	100.75	8.69
183.7	200.0 SF	5.00 *	May 25	2002-05-25	100.00	4.94
143.9 [5]	15 000.0 Yen	4.625 *	June 1	1994-06-01	101.625	4.30
100.0 [6]	10 450.0 Yen	5.20	June 19	1997-06-19	100.00	5.20
120.0 [7]	—	9.75	July 16	1997-07-16	100.00	9.75
205.0 [7]	—	10.25	July 16	2012-07-16	99.50	10.31
324.6	250.0 US	10.70	October 15	2007-10-15	99.106	10.81
87.8	100.0 SF	5.125 *	October 23	1997-10-23	100.00	5.06
50.0 [7]	—	10.75	December 29	1995-09-25	99.30	10.88
156.7 [8]	119.6 US	Misc.	Varied	Varied	Misc.	Misc.
65.4 [9]	50.0 US	Misc.	Varied	Varied	100.00	Misc.
65.6 [9]	50.0 US	Misc.	Varied	Varied	100.00	Misc.
2 532.4						

* Interest payable annually.

1 Canadian equivalent of face value on the date of borrowing for borrowings in foreign currency.

2 Interest payable semi-annually, except that marked with an asterisk, which is payable annually.

3 Yield to the buyer is determined on the basis of interest payable every six months.

4 Issue under interest rate exchange contract.

5 Issue under a currency exchange contract and interest rate exchange contract.

6 Issue under a currency exchange contract.

7 The Caisse de dépôt et placement du Québec subscribed in part for these bond issues.

8 Medium-term borrowings in US dollars at various dates of issue and maturity.

9 Notes issued and delivered in 1987 under short-term commercial paper programs, permanently maintained on money markets, and supported by a long-term credit line maturing in 1994.

Note: At December 31, 1987, Hydro-Québec had a credit agreement of $ 750 000 000 available in US dollars or the equivalent in Canadian dollars.

APPENDIX D

Review of the Economic Situation in 1987 and Outlook

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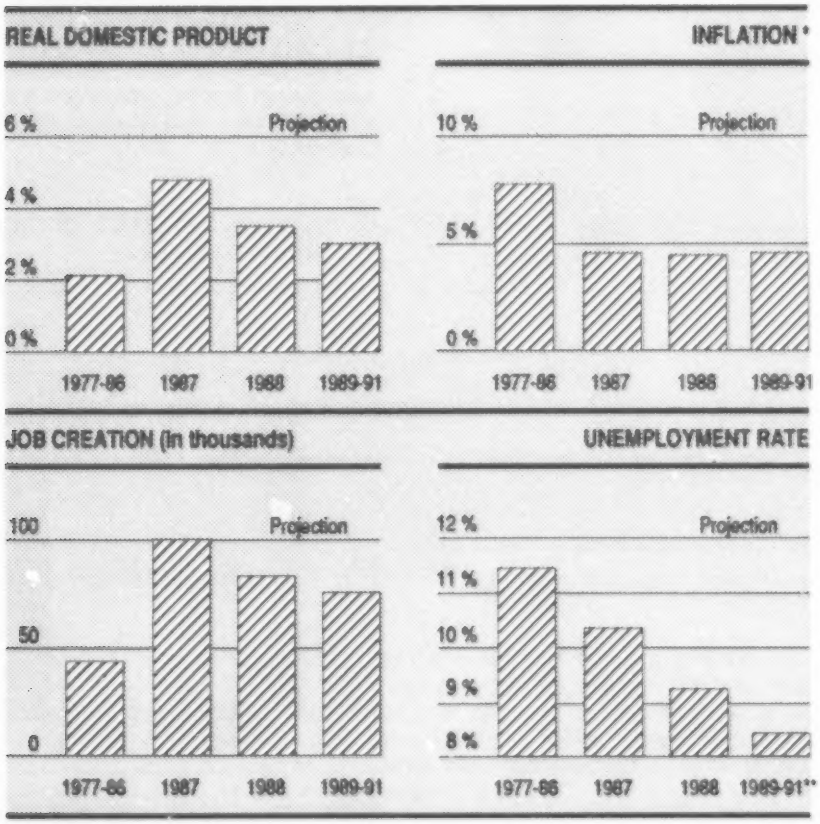
Review

In 1987, the Québec economy experienced renewed strength, which very few analysts had predicted a year ago. Output grew by 4.8 %, or almost 1 % more than in Canada as a whole. In Québec, as elsewhere in Canada, private sector demand soared dramatically for a fifth consecutive year of expansion in the wake of a marked surge in household demand and business investment.

The economy should continue to do well in the current year, although household expenditures and residential construction are not expected to be as strong as last year. A hefty rise in non-residential investment will, however, fuel the expansion. Output should therefore increase by 3.5 %, resulting in a total of 82 000 new jobs.

ECONOMIC SITUATION AND OUTLOOK — QUÉBEC



* Consumer Price Index in Canada.

** End of period.

Sources: Conference Board of Canada ;
The Consumer Price Index, S.C., 62-001 ;
The Labour Force, S.C., 71-001.

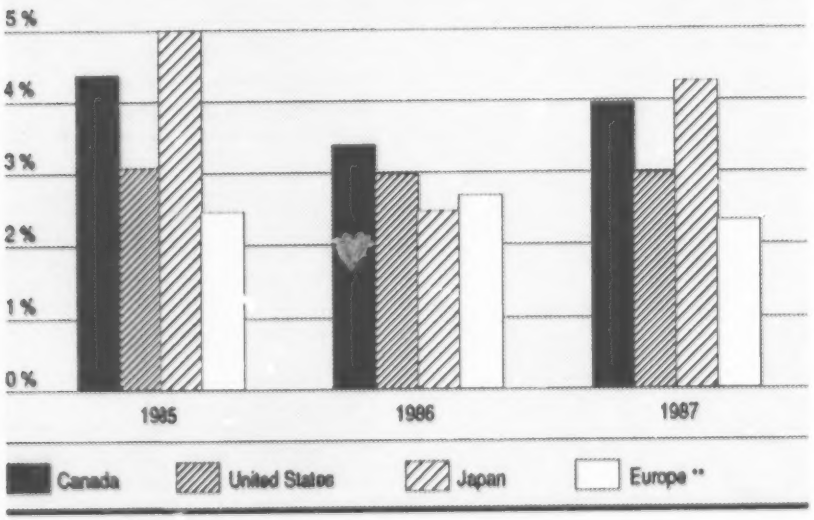
Medium-term projections indicate that, if there is no worldwide recession, the average rate of expansion of the Québec economy will be approximately 3 % over the next few years. Should this be achieved, mainly through the domestic strength of the economy, it would mean that an average of 80 000 jobs would be created per year between 1987 and 1991.

Economic situation in 1987

External environment

The world economy grew at a somewhat stronger rate in 1987, owing to good performances in Japan, Great Britain and Canada. Of the major industrialized countries, only Germany experienced a significant slowdown in economic activity last year. In the United States, the gross national product grew by 2.9 %, a performance equal to that of 1986, despite a slowdown in domestic demand. The marked depreciation of the American dollar, which began early in 1985, started to pay off, generating a reduction in the American trade deficit in constant dollars for the first time since the beginning of the decade. Simultaneously, inflationary pressures returned in 1987, particularly in the United States, where the economy is close to full employment, and depreciation of the dollar and the rise in the prices of crude oil and other raw materials revived fears of a resurgence of inflation. These elements, coupled with the strong growth of the economy, boosted interest rates during the year and finally led to the correction of clearly overvalued stock markets. Although those responsible for monetary policy acted swiftly and decisively, no country was exempt from the effects of the stock market crisis. As a result, what began as a good year from an economic standpoint ended with a general feeling of uneasiness.

GROSS NATIONAL PRODUCT * OF SELECTED OECD COUNTRIES
(annual percentage change)



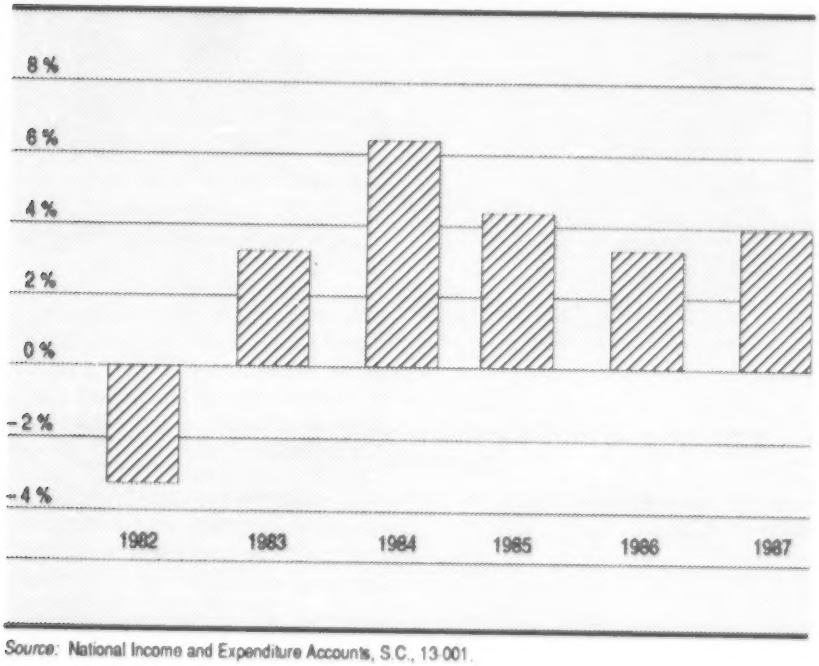
* Gross national product or gross domestic product, in volume.

** Four major European countries: Germany, France, Italy, United Kingdom.

Sources: Statistics Canada.
Data Resources Inc., Review of the U.S. Economy, March 1988.
Economic Planning Agency, Japan.
OECD Economic Outlook, December 1987.

In Canada, domestic demand soared by 5.3 %. The Canadian economy was characterized by a noticeable improvement in the financial position of business firms and a pronounced revival of consumer confidence. This development was conducive to rapid growth in household demand, accompanied by an increase of 11.1 % in business gross fixed capital investment, the best result since 1981 when the last peak was reached. The vigorous growth in domestic demand meant such an acceleration in imports that the net volume of Canada's trade in goods and services deteriorated. Overall, the volume of output grew by 3.9 %, causing the unemployment rate to drop to 8.9 %.

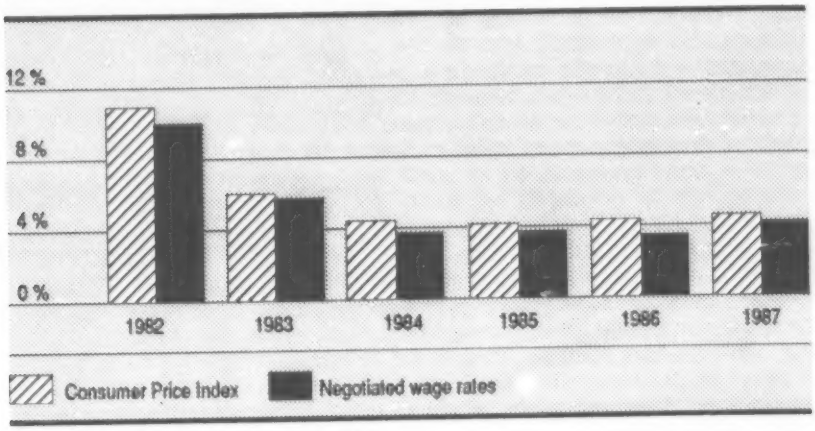
GROSS DOMESTIC PRODUCT IN CONSTANT DOLLARS — CANADA
(annual percentage change)



Source: National Income and Expenditure Accounts, S.C., 13-001.

As in most countries, the inflation rate increased slightly, rising to 4.4 % last year. As the graph below shows, this rate has remained relatively stable for four years, and wage hikes negotiated as part of major collective agreements remained at rates below that of inflation. This trend is shared by all regions of the country, with the exception of Ontario, which approached full employment with an unemployment rate that fell below 6 % in 1987.

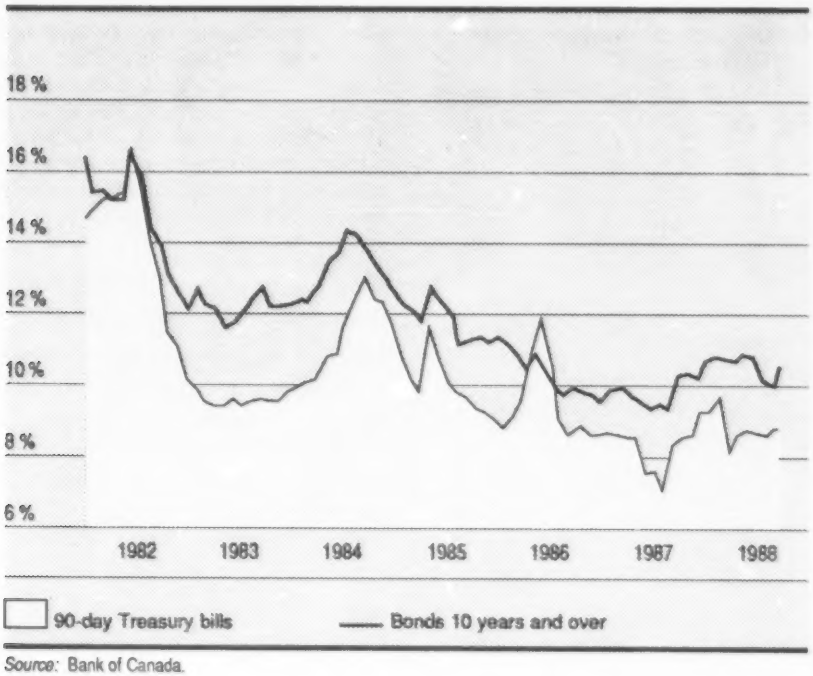
CONSUMER PRICE INDEX AND ACTUAL INCREASE IN NEGOTIATED BASIC WAGE RATES UNDER THE MAJOR COLLECTIVE AGREEMENTS
(annual percentage change)



Sources: The Consumer Price Index, S.C., 62-001.
Major Wage Settlements, Labour Canada.

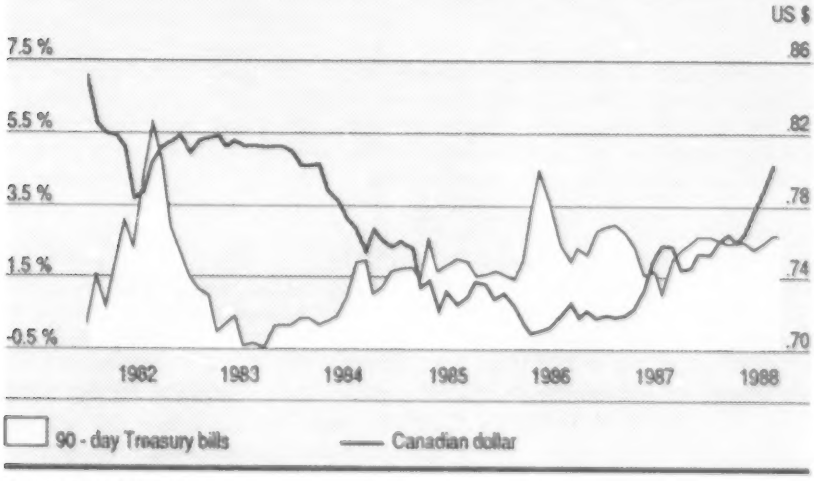
Following a brief interlude early in the year, when interest rates fell after the Bank of Canada intervened to slow the increase in the value of the Canadian dollar, the rates began to rise again in the spring. This reflected the evolution of interest rates in the United States and was reinforced by the policy of the Bank of Canada, which expanded the differentials between Canadian and American interest rates. This monetary policy helped boost the value of the Canadian dollar by about 8 US cents from December 1986 to March 1988, with almost half the increase occurring since last December. The average spreads between Canadian and American short-term interest rates were about 220 points for Treasury bills and 140 points for commercial paper. Such levels are normally associated with a monetary policy to support a falling dollar. Although the stock market crash of October 1987 temporarily interrupted the rise in interest rates, the Bank of Canada, which is still wary of inflation, maintained the differentials with US interest rates at high levels in the closing weeks of the year and in the first quarter of 1988. However, average short and long-term interest rates were not significantly higher in 1987 than in 1986, dropping in the first case by about 80 basis points and rising in the second by nearly 50 points.

YIELD — GOVERNMENT OF CANADA SECURITIES



Source: Bank of Canada.

SPREAD BETWEEN SHORT-TERM INTEREST RATE (CANADA - UNITED STATES) AND EXCHANGE RATE OF THE CANADIAN DOLLAR



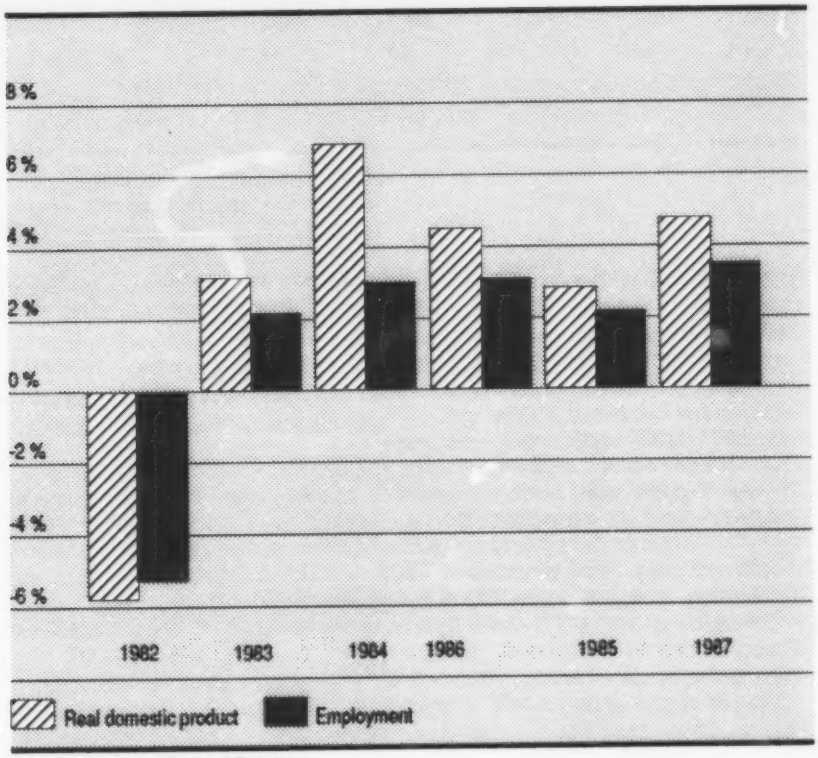
Source: Bank of Canada

Québec

Domestic product increases more than national average in 1987

The economic situation in Québec was particularly strong last year. The volume of the domestic product increased by almost 5 %, considerably more than the national average. Moreover, the vigour of the economy was reflected in almost all industries. Taking inflation into account, the value of the gross domestic product grew by 9 % last year, to total more than $ 130 000 000 000. This excellent economic performance can be traced to household demand and business investment. In this regard as well, Québec ended the year ahead of the rest of the country.

REAL DOMESTIC PRODUCT AND EMPLOYMENT — QUÉBEC
(annual percentage change)

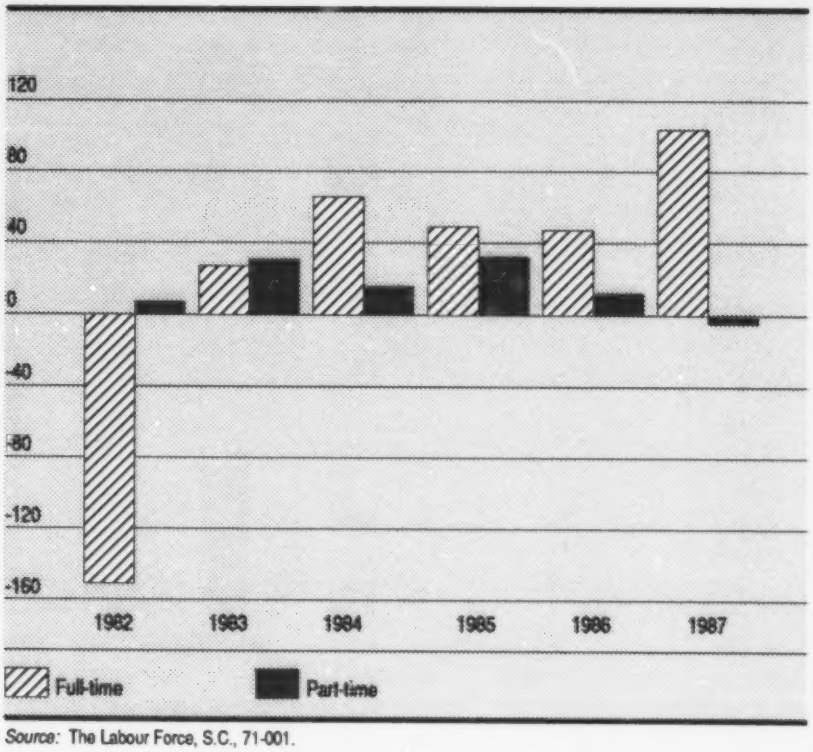


Sources: Conference Board of Canada.
The Labour Force, S.C., 71-001.

100 000 jobs created, unemployment down

Given the evolution of output, the labour market was characterized by the creation of 100 000 jobs, the best performance in 15 years. This achievement was even more significant because of the nature of the jobs created. They were all full-time (104 000), since the number of part-time jobs dropped slightly for the first time since records have been kept. This situation was also conducive to accelerated growth of the labour force, with new workers attracted to the labour market by the marked improvement in the hiring outlook. Despite a 2.6 % increase in the labour force, the number of unemployed workers dropped by 15 000 and the unemployment rate fell to 10.3 %, the same level as in 1981, before the recession.

FULL-TIME AND PART-TIME JOB CREATION
(in thousands)



Source: The Labour Force, S.C., 71-001.

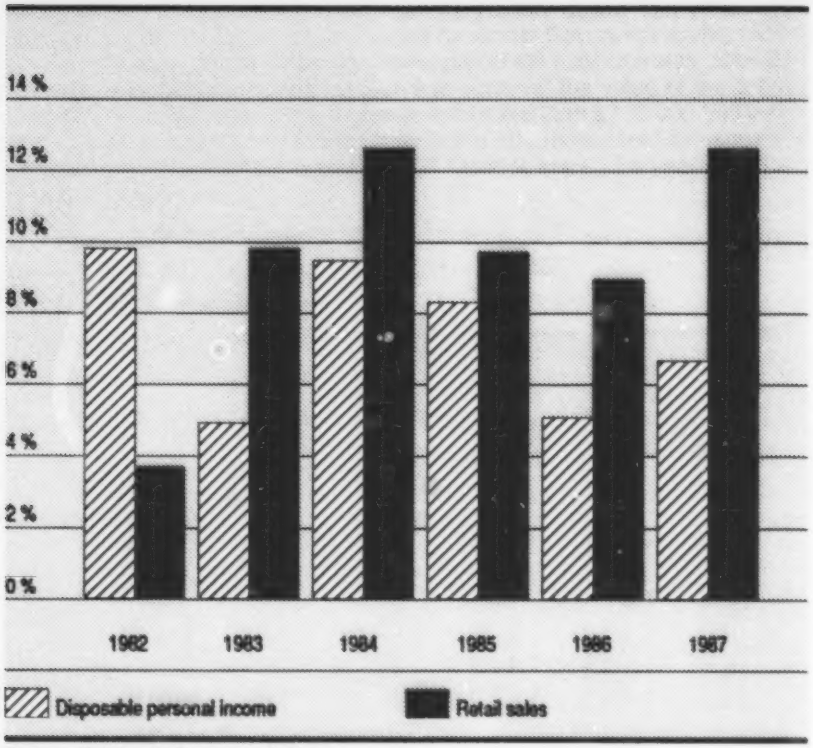
Household income and spending

Reflecting increasingly favourable economic conditions, the confidence of Québec households rose to an unprecedented level in 1987. Strengthened by the considerable discounts offered by industry to new car buyers and by accelerated growth in disposable income, this evolution generated the most rapid rise in household demand in the past few years and a considerable drop in the rate of savings.

Retail sales grow by 12.5 %

Retail sales grew by 12.5 %, a rate much higher than in 1986. As in the previous four years, sales by automobile, and furniture and appliance dealers were the most vigorous, rising by 19.1 % and 13.1 %, respectively. While the discounts granted by dealers prolonged the high demand for automobiles, the strength of the furniture and appliance sector must be linked to the increase in the demand for housing. Sales in the other retail categories also increased substantially, particularly in the food and beverage sector (11 %).

DISPOSABLE PERSONAL INCOME AND RETAIL SALES — QUÉBEC
(annual percentage change)



Sources: Ministère des Finances du Québec.
Provincial Economic Accounts, S.C., 13-213.
Retail Trade, S.C., 63-005.

Gross fixed capital investment

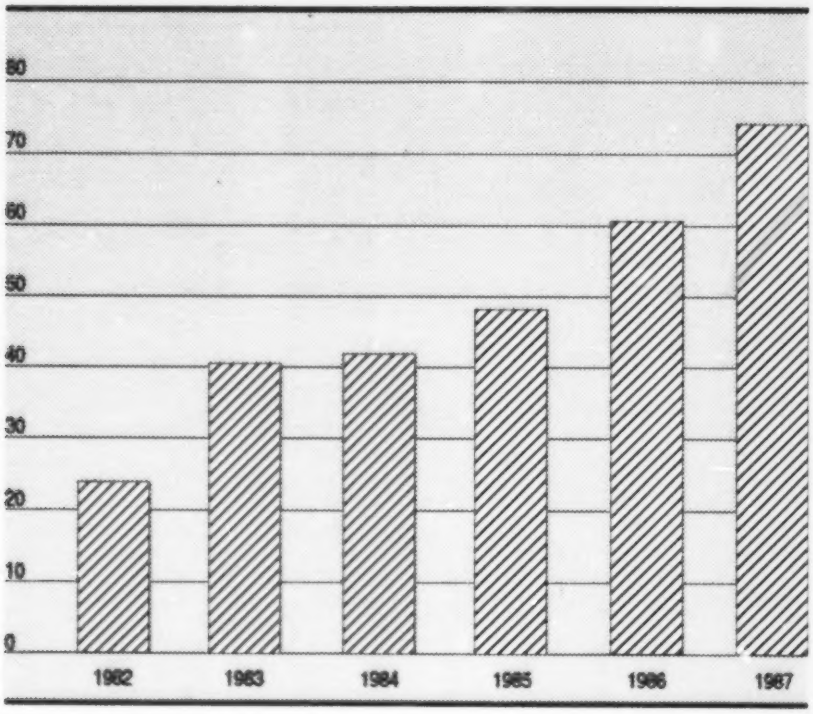
In 1987, private and public investment grew by 15 %, a rate that was also higher than the national average, for a total of more than $ 24 000 000 000. This excellent performance is attributable particularly to residential construction and to vigorous private non-residential investment.

Residential construction

A record 74 179 housing starts

Housing starts grew by 22.9 %, reaching a record 74 179 units, which meant an increase of 25.9 % in investment in the housing sector. Construction of rental housing was particularly vigorous last year. This evolution, coupled with a marked increase in demand for and the construction of single-family houses and joint ownership dwellings, generated a significant rise in the vacancy rates in rental buildings. In a number of cities, vacancy rates were very high at the end of the year. However, in Montréal and Québec City, these rates, although increasing, were at much lower levels, 3.6 % and 5.6 %, respectively.

HOUSING STARTS — QUÉBEC
(In thousands of units)



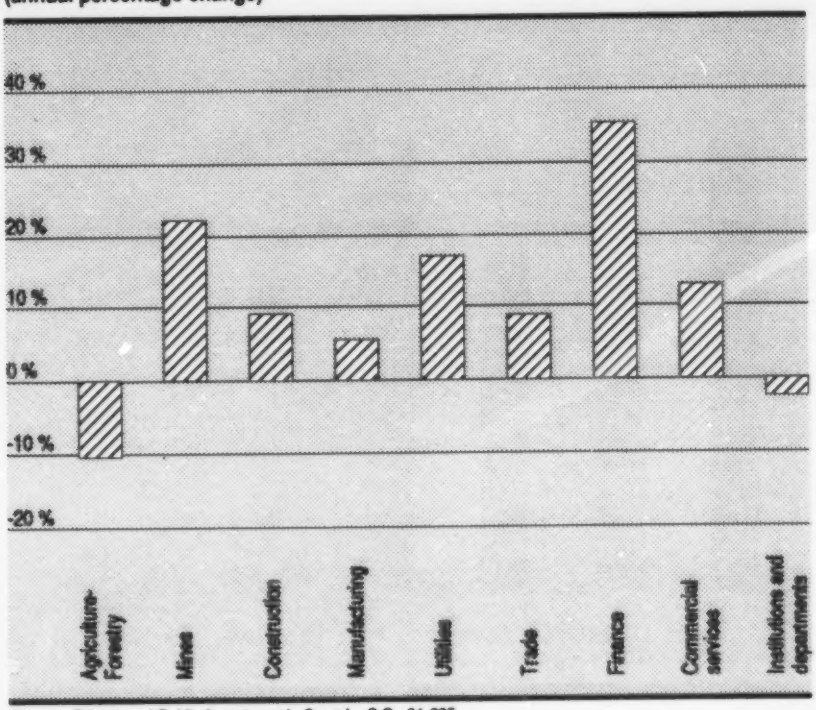
Source: Canada Mortgage and Housing Corporation.

Non-residential investment

Non-residential investment up 9.8 %

In 1987, non-residential investment grew by 9.8 %, notably because of the strength of the private sector and public commercial enterprises. In the latter sector, the rise in Hydro-Québec's capital expenditures was at the root of the growth observed. The rapid rise in non-residential investment is attributable to the financial sector (35.2 %) and commercial services (12.9 %), as well as to the public utilities (17.1 %). In manufacturing, capital expenditures rose by 5.4 %. Major gains made in transportation equipment (99.9 %), food (21.2 %), machinery (31.9 %) and petroleum by-products (34.4 %) were partially offset by a decline of 15.3 % in the primary processing of metals and of 9.2 % in chemicals. With the exception of these two sectors, investment in manufacturing grew by 11.9 %. Lastly, there was a decrease in investment in the agricultural sector in Québec and throughout Canada.

NON-RESIDENTIAL INVESTMENT BY INDUSTRY — QUÉBEC 1987
(annual percentage change)



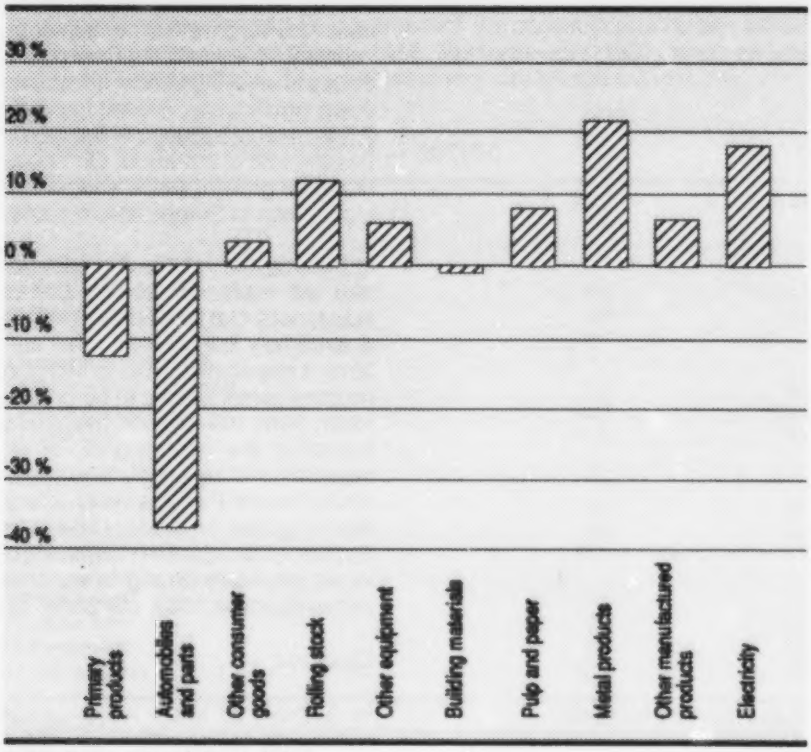
Source: Private and Public Investment in Canada, S.C., 61-205.

International exports

In 1987, the value of international exports loaded in Québec grew at a rate of 1.6 % compared to 7.1 % in 1986. This was owing in a large measure to a drop of 13.4 % in exports of raw materials and to the three-month shutdown of the General Motors assembly plant at Boisbriand for retooling.

Re-equipping the plant entailed a shortfall of about $ 700 000 000 in international exports loaded in Québec. If automobiles and parts, which were down 39.3 %, are excluded, exports loaded in Québec rose by 6.9 %. Thus, strong increases in exports of aeronautic equipment (+ 9.2 %), rolling stock (+ 12.7 %), pulp and paper (+ 8.5 %) and metal products (+ 21.7 %) compensated for the lack of exports of automobile products. Finally, electricity exports leaped forward 18.2 %.

INTERNATIONAL EXPORTS LOADED IN QUÉBEC — 1987
(annual percentage change)



Source: Bureau de la statistique du Québec.

Outlook for 1988

While the initial reactions to the stock market crash last fall led some analysts to fear the worst, despite the intervention of the central banks of the major industrialized countries, the evolution of the main economic indicators since then does not reveal any significant effect on the North American economy. Both in the United States and in Canada, economic data show that the economy was still strong at the end of the year, and the information available for early 1988 continues to indicate such surprising strength that most forecasters have revised their projections upwards for 1988. In Québec, the volume of production is expected to increase by 3.5 %.

External environment

In 1988, the economy of the OECD countries will continue to grow at a rate of about 2.5 %, growth in consumer prices will move towards 4 %, and the trade imbalances will only improve slowly. Unlike most major countries, the United States is enjoying almost full employment and domestic demand should slow down significantly. Growth in production, however, should continue at about 2.5 %, mainly because of the rebalancing of trade between the United States and the rest of the world. On the other hand, in Japan, this process will put a brake on growth, which should nevertheless stabilize at about 3.5 %, much higher than in Europe where a rate in the order of 2 % is expected.

In Canada, the volume of production will grow by about 3.5 % and the inflation rate will reach 4.3 %. The Canadian economy is not suffering from the imbalances that traditionally precede a recession. The ratio of stocks to sales is extremely low, interest rates are relatively stable, the financial position of firms is excellent from all points of view and inflation is under control. Only the housing sector seems to be on the verge of registering a significant drop. In 1988, firms will provide the driving force behind economic growth. Many industries are operating at, or close to, full capacity, which means that investment is essential. Moreover, while markets are less receptive to new equity issues than last year, companies have unprecedented reserves for financing their expansion. The survey on investment intentions carried out by Statistics Canada at the beginning of the year confirms this analysis and points to an extremely strong upward swing of 15.1 % in non-residential capital expenditures in 1988, compared to 6.2 % in 1987.

Québec

Output to rise 3.5 % in 1988

In Québec, as in the whole of Canada, the real domestic product should continue to rise steadily by about 3.5 %, far above that expected for most of our foreign trade partners. Non-residential investment and international exports will be the main sources of growth for Québec this year.

Retail sales to rise 8.7 %

A reduction in the rate of growth of demand for consumer goods and services is expected in Québec and throughout the country. This development will affect durable goods in particular, and especially automobiles. Retail sales will remain strong, rising at a rate of 8.7 %.

51 000 housing starts

As the market approaches saturation point, the pronounced increase in the vacancy rate of rental buildings should have a negative impact on new housing construction in 1988. After reaching a record high in 1987, housing starts are expected to fall to about 50 000 this year, which, from a historical point of view, is still a good performance.

Best performance since 1975 for non-residential investment

As in Canada, non-residential investment should constitute the most dynamic demand component this year, because of the high rate at which production capacity is being used in many industries and the excellent financial condition of firms. According to Statistics Canada's most recent survey, non-residential capital expenditure will grow by 16.7 % in Québec this year, almost twice as fast as in 1987. This represents the best performance since 1975, due in part to the upturn in Hydro-Québec's investment, but also to continued strong growth in capital expenditure in the private sector, which should increase by 14.7 %. This rate is slightly higher than that recorded during the past two years, because of the sharp rises expected in the manufacturing and transportation sectors.

82 000 jobs to be created

Unemployment to drop

During the first months of 1988, employment continued to rise rapidly and unemployment to drop. With the anticipated gains in output, employment should increase by 2.8 % this year, with the creation of 82 000 new jobs. The manufacturing sector and, to a lesser extent, the construction industry, should record better than average gains in 1988. Moreover, as in 1987, most new jobs will be full-time positions. The unemployment rate should fall to 9.2 %.

SUMMARY OF SHORT-TERM OUTLOOK — QUÉBEC

	1987 %	1988 %
Output		
□ Gross domestic product	9.0	8.3
□ Real domestic product	4.8	3.5
Components of demand		
□ Non-residential investment	9.8	16.7
□ Housing starts [1]	74.2	51.0
□ Retail sales	12.5	8.7
Components of income		
□ Wages and salaries	7.5	6.7
□ Personal income	7.0	7.1
□ Corporate profits	21.9	10.9
Labour market		
□ Labour force	2.6	1.5
□ Employment	3.5	2.8
□ Unemployment	10.3	9.2

1 Thousands.

Medium-term economic outlook

The medium-term outlook deals with the main trends anticipated for the Québec economy for the 1989-1991 period. This projection is subject to a series of hypotheses that define both the domestic and the international context in which the economy will evolve. Since these hypotheses must be chosen from a wide range of possibilities, projections over such a long period must not be interpreted as forecasts. Rather, they constitute an instrument for analysis which gives a coherent picture of the main economic trends that are compatible with the hypotheses retained.

Main hypotheses underlying the projection

The projection is based on the hypothesis that international imbalances will continue to right themselves. This means that the short-term macro-economic imbalances, particularly in the United States, will gradually be corrected without giving rise to a recession. In addition to this major point, the principal hypotheses are as follows:

- In North America, the current budgetary and monetary policy will be maintained. Consequently, real interest rates will remain high, compared to their past record, and the progressive reduction of budgetary deficits will continue;

- Economic growth in the United States will slow down in 1988 and then continue without interruption at a rate of about 3 % between 1989 and 1991;

- Projections incorporate only the first stage of the Canadian tax reform;
- Growth in the Canadian economy should settle at around 3 % while inflation and wage increases will be in the order of 4.5 % a year;
- The Canadian dollar will average under 80 US cents during this period.

Medium-term outlook for the Québec economy in 1989-1991

1989-1991 OUTLOOK

Economic growth comparable with Canada as a whole

On the basis of these hypotheses, economic growth in Québec will continue in the medium-term at 3 %, a rate comparable with that for the country as a whole. The upswing in the economy will benefit from the tax reductions and incentives introduced in the budget as well as from the effects of the measures taken last year to promote R&D and the reorientation of the economic programs carried out in various departments. The table below summarizes the medium-term evolution of the economic indicators.

SUMMARY OF MEDIUM-TERM OUTLOOK — QUÉBEC

	1977-1986 %	1989-1991 %
Output		
Gross domestic product	9.6	7.3
Real domestic product	2.2	3.0
Components of demand		
Non-residential investment	6.9	7.6
Housing starts [1]	41.7	46.0
Retail sales	9.2	6.7
Components of income		
Wages and salaries	8.5	7.0
Personal income	10.1	7.1
Corporate profits	10.5	8.9
Labour market		
Labour force	1.8	2.1
Employment	1.6	2.4
Unemployment	11.4	8.4 [2]

1 Thousands.

2 Level in 1991.

Sources of growth

Growth supported by export of manufactured products and Hydro-Québec's investment

Compared to the situation that prevailed in Québec during the past five years, the beginning of the next decade will be characterized by a change in the demand components that support growth: Hydro-Québec's investment and exports of manufactured products will take over from consumer spending, residential construction and private investment, which have been the driving force behind the economy in recent years.

Since the beginning of the recovery, the increase in household expenditures easily exceeded the growth in disposable income. The rate of household savings therefore dropped sharply. In the medium term, the relative stability of interest rates and inflation, along with the progressive but moderate reduction in unemployment justify a stabilization of savings rates at about the present level. Until 1991, household expenditures will therefore increase in tandem with disposable income which will in turn be sustained by the tax reductions announced as part of the tax reform.

Compared with the exceptionally rapid increase of the past four years, the rate of growth of gross fixed capital formation will lessen in the medium term. This situation is to be expected at this stage in the cycle, and may be attributed mainly to the residential construction sector whose rate of activity will stabilize at a level that is more compatible with Québec's long-term housing requirements.

Hydro-Québec's capital expenditures will offset expected developments in residential construction. The renewed vigour of Hydro-Québec's investment is the result of the head start made in developing the James Bay hydroelectric potential. In addition, business investment, especially in the manufacturing sector, will continue at a high level and their share of the GDP will stabilize at 8.5 %, historically a good performance for Québec.

Continued vitality in private investment

Continued vitality in private investment rests on a rather favourable macro-economic context. Moreover, business capital expenditures will be stimulated by changes in corporate taxes, free trade and the need to invest in new production technologies to remain competitive.

Between 1977 and 1986, the volume of manufactured exports rose by an average of more than 5% a year. This trend will continue in 1989-1991. In addition to the growth expected among Québec's main trading partners, Québec's foreign exports will benefit from the increased capacity and improved productivity of its main exporting industries which have allocated considerable resources to the modernization of their plants in recent years.

ECONOMIC INDICATORS
QUÉBEC

	Unit of measurement	1983	1984	1985	1986	1987[1]	(83-82)	(84-83)	(85-84)	(86-85)	(87-86)	(87-83)[2]
							%	%	%	%	%	%
Gross domestic product	$ 000 000	92 274	100 962	109 076	119 439	130 189	7.0	9.4	8.0	9.5	9.0	9.0
Real domestic product	$ 000 000 81	70 416	75 309	78 707	80 954	84 827	3.2	6.9	4.5	2.9	4.8	4.8
Per capita real domestic product	$ 81	10 875	11600	12 082	12 378	12 867	3.0	6.7	4.2	2.4	4.0	4.3
Personal income	$ 000 000	83 950	91 559	99 374	105 545	112 933	4.9	9.1	8.5	6.2	7.0	7.7
Per capita personal income	$	12 965	14 103	15 255	16 138	17 130	4.7	8.8	8.2	5.8	6.1	7.2
Total capital expenditures	$ 000 000	13 947	15 748	19 240	21 030	24 179	6.5	12.9	22.2	9.3	15.0	14.7
– manufacturing sector	$ 000 000	2 088	2 751	3 395	3 714	3 914	– 3.3	31.8	23.4	9.4	5.4	17.0
Value of shipments – manufacturing industries	$ 000 000	52 091	56 831	59 456	60 603	65 564	6.8	9.1	4.6	1.9	8.2	5.9
Retail sales	$ 000 000	25 784	29 006	31 782	34 593	38 933	9.7	12.5	9.6	8.8	12.5	10.9
Consumer Price Index	1981 = 100	117.8	122.7	128.1	134.3	140.4	5.6	4.2	4.4	4.9	4.5	4.5
Population (June 1)	'000	6 475	6 492	6 514	6 540	6 593	0.2	0.3	0.3	0.4	0.8	0.5
Labour force	'000	3 069	3 123	3 181	3 221	3 306	2.4	1.8	1.9	1.3	2.6	1.9
Employment	'000	2 642	2 722	2 804	2 866	2 966	2.2	3.0	3.0	2.2	3.5	2.9
Unemployment	%	13.9	12.8	11.8	11.0	10.3	—	—	—	—	—	—

1 Preliminary data for 1987.

2 1983-1987 annual compound rate.

Sources : Provincial Economic Accounts, S.C., 13-213, Conference Board of Canada, National Income and Expenditure Accounts, S.C., 13-001, Private and Public Investment in Canada, S.C., 61-205, Inventories, Shipments and Orders in Manufacturing Industries, S.C., 31-001, Retail Trade, S.C., 63-005, The Consumer Price Index, S.C., 62-001, Postcensal Annual Estimates of Population, S.C., 91-210, The Labour Force, S.C., 71-001.

ECONOMIC INDICATORS
CANADA

	Unit of measurement	1983	1984	1985	1986	1987[1]	(83-82)	(84-83)	(85-84)	(86-85)	(87-86)	(87-83)[2]
							%	%	%	%	%	%
Gross domestic product	$ 000 000	405 717	445 604	479 446	509 898	553 870	8.4	9.8	7.6	6.4	8.6	8.1
Real domestic product	$ 000 000 81	317 859	337 081	353 292	364 522	379 042	3.2	6.0	4.8	3.2	4.0	4.5
Per capita real domestic product	$ 81	12 824	13 495	14 039	14 378	14 792	2.4	5.2	4.0	2.4	2.9	3.6
Personal income	$ 000 000	343 052	372 794	404 707	432 511	464 277	5.6	8.7	8.6	6.9	7.3	7.9
Per capita personal income	$	13 840	14 925	16 082	17 060	18 118	4.7	7.8	7.8	6.1	6.2	7.0
Total capital expenditures	$ 000 000	73 519	75 378	90 504	97 086	108 529	– 4.2	2.5	20.1	7.3	11.8	10.2
– manufacturing sector	$ 000 000	8 858	8 887	11 516	14 249	14 954	– 22.9	0.3	29.6	23.7	4.9	14.0
Value of shipments – manufacturing industries	$ 000 000	203 019	228 492	244 371	249 861	261 655	8.3	12.5	6.9	2.2	4.7	6.5
Retail sales	$ 000 000	106 243	116 080	129 446	140 009	153 784	8.8	9.3	11.5	8.2	9.8	9.7
Consumer Price Index	1981 = 100	117.2	122.3	127.1	132.4	138.2	5.8	4.3	4.0	4.2	4.4	4.2
Population (June 1)	'000	24 787	24 978	25 165	25 353	25 625	0.8	0.8	0.7	0.7	1.1	0.8
Labour force	'000	12 183	12 399	12 639	12 870	13 121	1.9	1.8	1.9	1.8	2.0	1.9
Employment	'000	10 734	11 000	11 311	11 634	11 955	0.8	2.5	2.8	2.9	2.8	2.7
Unemployment	%	11.9	11.3	10.5	9.6	8.9	—	—	—	—	—	—

1 Preliminary data for 1987.

2 1983-1987 annual compound rate.

Sources : National Income and Expenditure Accounts, S.C., 13-001, Gross Domestic Product by Industry, S.C., 61-005, Private and Public Investment in Canada, S.C., 61-205, Inventories, Shipments and Orders in Manufacturing Industries, S.C., 31-001, Retail Trade, S.C., 63-005, The Consumer Price Index, S.C., 62-001, Postcensal Annual Estimates of Population, S.C., 91-210, The Labour Force, S.C., 71-001.